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*** Prague Cuts Support for International University**
93CH0471A Budapest NEPSZABADSAG in Hungarian
6 Mar 93 p 3

[Unattributed article: "Conflict Between Prague and George Soros"]

[Text] *Another financial conflict has erupted between the Czech Government and Central European University, which is controlled by the Soros Foundation. The government wants to sharply cut already this year the budgetary subsidy it provides for the institution's operation, and it is quite possible that the students might not be able to finish even the current academic year in Prague. George Soros has held out the prospect of handing the matter over to his lawyers.*

As Professor Jiri Musil, the head of Central European University's Prague branch, told our reporter, Gyorgy Jozsef, it came as a rude surprise to all of them that the government has reneged on its January promise (to continue for the time being to pay the rent for the university's premises), because it would have been able to transfer merely 7.0 million korunas, instead of the 20 to 25 million estimated as necessary. But perhaps even more unpleasant, continued the professor, was the fact that, after the cabinet session on Wednesday, the officials of Central European University had to learn about all this from the media; nobody took the trouble to inform them personally. They do not know what will happen 3.5 months from now (the money would be enough until then). However, the money has not been transferred so far, even though the rent for the premises is past due.

At any rate, George Soros (Jiri Musil talked with him by phone also on Friday) is planning to involve legal experts, U.S. lawyers, to clarify what obligations were assumed by each side, and to establish what has been fulfilled of those obligations so far. On his part Soros has declared that the obligations he assumed would be fulfilled completely by the end of the 1993-94 academic year, and that he expected the same fairness from the other party—i.e., from the government in Prague. Professor Musil added that the Ministry of State Control had just completed an audit of how the university spent the money provided by the Czech Government. The audit did not uncover any problems, the scientist emphasized.

Czech President Vaclav Havel issued a statement saying that it was not in the government's interest to have Central European University leave the country, and that efforts were being made to ensure the university's operation, in accordance with the laws and with what the Czech Republic could afford.

[Box, p 3]

The Open Society Fund of George Soros, a U.S. millionaire of Hungarian extraction, is registered in New York. On 18 July 1990 the Fund and the Czech Ministry of

Education jointly established Central European University's Prague college. (The university's other college operates in Budapest.) A three-semester program on the postgraduate level opened in the Czech capital in April 1991. Professors of various nationalities are teaching economics, political science, law, environmental studies, philosophy, and history of culture and the arts, to students whose nationalities likewise vary. The enrollment at present is 110 students.

*** Government Assessment of External Threats**
93CH0463A Prague A REVUE in Czech 17 Feb 93
pp 5-7

[Article by Antonin Rasek: "Threats to the Security of the Czech Republic"]

[Text] Among military experts, both theoreticians and practitioners, there is an ever increasing trend to talk in specifics rather than generically about military threats and the threat to security. This is probably due to the fact that the danger of global, including nuclear, conflict has diminished since the end of the bipolar order of the world, where two alliances faced each other: NATO and the Warsaw Pact, representing two diametrically opposed social economic systems.

Although the introduction makes it patently clear as to which side we are on, evaluating the situation is not quite so easy. It may be more appropriate to use this description in regard to the situation in Europe. This is because, from the overall world point of view, there is still great tension, usually inaccurately named the "north-south" or "poor versus wealthy" conflict (although it is difficult to call some of the countries in the south poor). Specifically, fundamentalism is considered to be a threat. Some politicians, political scientists, and military experts also see a danger in the fact that the People's Republic of China could, in the future, concentrate dissatisfied countries or regions around it, regions that have been slow to enter the era of human development that we sometimes, rather inaccurately, call information societies.

We have to take many of these warnings seriously because the spread of civilization is not only making the world grow smaller but also interactively and significantly influences, and thus threatens, it. In addition, the influence of fundamentalism is penetrating into local European battlegrounds, into war-torn Yugoslavia and the former Soviet Transcaucasian republics. At the same time, technological development is spreading to such an extent that even a number of medium-developed countries are able to obtain missile as well as nuclear arms technology. In addition, biological weapons are proving to be an equally potent danger.

Threats to Our Security

The disintegration of the bipolar order of the world was most positive for Europe. But, at the same time, new problems naturally arose, many of which were unexpected. Although the policies of many Western countries

aimed toward the breakup of the communists system, they were not sufficiently prepared for it. Above all, it was not expected to happen so quickly, nor to be fraught with conflicts to begin with.

It is now clear that there have been and will be changes not only in the East but also in the West. The end of excessive arms production is surely one of the major causes of economic recession in the West. Not to mention the fact that the United States, as the only remaining superpower, will no longer be able to control the power and security in the world. Because of the effects of the breakup of the bipolar world, the West is facing the need to restructure its economy. Only Japan and, to some extent, Germany will avoid this process because their economies were not militarized to the same degree as those of the leading Western countries.

The economic situation in the West is likely to make it impossible for it to offer the *de facto* defeated communist countries anything like the Marshall Plan after World War II. As a matter of fact, it will not even be able to influence the use of these resources as it could in the case of defeated Germany and Japan. Thus, the defeated postcommunist countries will most probably have to bear the full weight of their defeat in the cold war. After all, in regard to their economic standard, they were "overarmed" to a much greater degree than the Western countries.

Naturally, a lot will depend on how able and willing the Western countries will be to recognize the irrevocability of changes in the postcommunist countries. Following the installation of the more or less neocommunist government in Lithuania, this does not seem as convincing as it did after the fall of the communist regimes. Of course, the crux of the matter is whether this is an incidental or an expected process and what steps these governments will take in democratizing their countries and introducing a market economy. However, one cannot expect that this will speed up the decisionmaking processes of the European Community.

For the postcommunist countries, the "Return to Europe" is really an allegoric expression of their need to get rid of their communist past. But it is becoming apparent that this will not be easy. One of the reasons is the fact that, although the global threat to security has disappeared, it has been replaced by other threats to security that, although not as threatening to survival, are much more numerous and are caused mainly by the instability of postcommunist countries and new dangers—not unfamiliar to Western countries—which had no opportunity to become evident in the closed central and east European countries. These are primarily terrorism, smuggling, drugs, international crime, and the constantly growing stream of refugees. Many threats are also appearing and intensifying as a result of the elimination of other threats. For example, Central Europe certainly breathed a sigh of relief, or will breathe a sigh of relief, when the last Soviet soldiers have left its territory.

But their inadequate social security increases the dangers elsewhere—that is, in the territory of the former Soviet Union.

A serious security issue in postcommunist countries is the economic crisis, which is accompanying them on the road to a market economy. It is linked to social tension and, ultimately, also to political tension and crises, which, of course, do not manifest themselves in the same way in all of these countries. (It depends primarily on the level of their economic, cultural, and social development.)

If we think about the causes for the destabilizing factors in postcommunist countries, we will find that, apart from the objective economic, political, and social causes, they are ideological: Following the destructive consequences of communist ideology, the development of the postcommunist world is being made more difficult by nationalism, whose roots were preserved instead of being dealt with by totalitarian systems. Nationalist problems, of course, are not solely a matter of ideology. Basically, this problem has not been resolved even in the West (the Basques, the Irish, not to mention the integration of foreigners into these countries). From the aspect of security, there are also problems of culture, civilization, and religion.

However, a determining factor for the development of postcommunist countries is that all of them, though with different nuances, are aspiring to democracy and a rule-of-law state. However, in comparison with Western countries, the process is toward disintegration rather than integration in these countries. Essentially, everything that was integrated by force by totalitarian power (and even what was created without the use of force) is now disintegrating. The result of this is that the threat from the East has turned into a threat in the East for Western countries. Therefore the Maastricht agreements, unless they are balanced by specific political agreements, could be a further step toward isolating Central and Eastern Europe.

From a specifically military point of view, our immediate geopolitical environment, especially in relation to our neighbors, needs to be analyzed in greater detail. Of course, the breakup of the federation and the creation of two independent states has significantly changed this situation.

Nevertheless, one can assume that an analysis of the situation in the territory of the former Soviet Union is decisive for any deliberations on our military security. It is becoming apparent that only Russia intends to maintain the status of a nuclear superpower. But it is aiming at a significant reduction of both weapon systems and number of soldiers. If it did not do this, its economic crisis would become more acute. President Yeltsin is aware of this, although he is opposed by the weapons producers' lobby, which is supported by the conservative forces. Ukraine is preparing to surrender its nuclear weapons but still intends to maintain a relatively large

army. Belarus is keeping in the background. The centers of tension are the Transcaucasian republics, which are increasingly influenced by fundamentalists and, to a certain extent, Moldavia, although the conflicts there have been subdued to some degree. A very complex development, strongly affected by nationalism, is taking place in the Baltic republics. The accession of economic power in Lithuania should be a warning. However, from the military viewpoint, foreign armies are expected to withdraw from these countries.

From a historical and, in fact, present-day point of view, our attention should primarily focus on Germany. Its remarkable economic and democratic development during the past half-century cannot be overlooked. The unification of Germany should be considered to be positive, although it is probably not proceeding the way the protagonists of this historic step imagined or desired. What is particularly disturbing is the growth of rightist and leftist extremism, especially in the territory of the former GDR. What is disturbing to us is the renewed intensification of the Sudeten issue. We believe that the democratic forces in Germany will succeed in stopping and reversing these processes. Another thing that will naturally be a problem for us is the expected economic expansion of Germany, which could increase once the internal political difficulties have been surmounted. Economic domination is clearly visible in the new kind of foreign policy ambitions that economically developed countries have. A military threat on the part of Germany alone can basically be eliminated because Germany is militarily bound to NATO and could hardly do anything like that without its knowledge.

As far as Poland is concerned (despite the fact that some materials were published, questioning the justification for the creation and existence of Czechoslovakia after 1918 and in connection with Tesinsko), mutual friendly relations are to be expected. After all, we have found ourselves in the same situation as the Poles, and, on the whole, we believe that we can deal with it only through mutual cooperation. At last we are in contact with the Poles, both within the framework of the Visegrad Four and of the Hexagon.

We do not expect to have any major problems with Austria. But the latter country will have to deal with the matter of its neutrality, which was a product of the bipolar world. Along with this, the justification for the status of neutrality will have to be reviewed. (For example, Austria and Switzerland, along with Norway and Iceland, have applied to join the EC.) Another interesting problem could be discussions about the justification for an army in Austria (as well as in the Netherlands), and this could serve as an example for a significant reduction of armies in Central Europe.

Relations with the Republic of Hungary have frequently been described as complex, but it is no longer a direct neighbor. However, we would undoubtedly be affected by the consequences of tense relations between Slovakia and that country. The cause could be the longstanding

issue of Gabcikov or the situation of the relatively large Hungarian minority there. The development will primarily depend on the two countries' policies toward nationalities.

The conflict in the territory of the former Yugoslavia could prove to be a long-term problem. Although it will most probably become an internal affair over time, at the moment it is the primary problem of both Europe and the world and can keep its neighbors especially in a state of latent tension. From this point of view, the most threatened countries are Albania (the majority of the population in Kosovo is Albanian), Romania (also with a large Hungarian minority), and Bulgaria (with a Macedonian minority numbering in the millions); apart from this, in the same region, Romania is engaged in a conflict with Moldavia, and Bulgaria has a large Turkish minority. Nationalist problems are latent in the entire region from the western borders of the Baltic republics through to the Adriatic Sea.

Therefore, generally speaking, the greatest danger to security in our geopolitical region is a return to neocommunist systems, especially in the territory of the former Soviet Union, where, however, the only countries that could prove to be a threat are Russia and Ukraine. Furthermore, the future development of the conflicts in Yugoslavia could mean a wave of refugees for us, as soon as Western countries, particularly Germany, start to close the door or, rather, the border to them. We can also expect to get refugees from other destabilized countries.

It is still an open question as to how real the possibility of creating international conflicts is, in order to divert attention from domestic political problems—as we have witnessed in the past. Although the potential for such a conflict has diminished, it cannot be totally eliminated in countries with populist policies. However, it seems that the danger of resorting to military force is receding in the world, especially in Europe.

Reaction to Threats to Security

Worldwide and European-wide security policies are the determining factors. NATO plays a key—essentially a monopoly—role in them, as does the United States, as the sole superpower within its framework. In this context, it is interesting that certain ideas about the need to put the well-known strategic defense initiative into practice are surfacing among military experts. According to them, it is the only thing that could counteract a global threat, especially in relation to using missiles with nuclear warheads, which are now attainable by medium-sized, economically developed countries. On the whole, the Czech Republic can rely on NATO's guarantees as far as its security is concerned.

From the point of view of our own sovereign Czech state, the primary conditions for increased security are economic prosperity and political stability. Without the economic prerequisites, we have no possibility of maintaining a suitable modern Czech army. Therefore, the size of the military budget will be a very sensitive issue.

It cannot be too high because, in the given situation, it would merely make the road to economic prosperity more difficult, but it must not be too low because this would lead to an obsolete army, which would not be a sufficiently stabilizing factor.

On the other hand, this assumes that agents of state administration and economic entities are responsible for the security of the country. Under no circumstances may the army alone be responsible for defense, and this, unfortunately, is still the conviction of the majority—and not solely of simple citizens. Nor is defense a secondary issue, as we have seen from some of the reactions of political agents. We cannot afford to realize this for the first time when we are standing face to face with an immediate threat to our security. Only if the decisionmaking agencies of society take a purposeful approach can we expect to have the loyalty of the army and see its gradual transformation into an army of a democratic state.

The army and defense must generally ensure deterrent, defensive, security, protective, and safeguarding functions. Above all, this means demonstrating that we are ready to defend ourselves if threatened. Although a small country has a negligible influence on the security policies of the world, we cannot and must not subordinate ourselves to just anyone. Munich and 21 August 1968 are sufficient momentous examples.

Above all, Czech foreign policy must play an active role. International politics continue to be a battle for power and security. The foreign policy of a small country is primarily a security policy. For this, it is necessary to have a well-considered security policy that implements the foreign policy. Foreign policy experts believe that the focus of our attention should be the attempt to institutionalize the CSCE and play an active role in the Visegrad Four and the Hexagon. While the main focus of attention in the Czech Republic will be a unified Germany as a new phenomenon in the Central European geopolitical arena, the influence of Ukraine, Hungary, and Poland will be important for Slovakia.

Relations between Czechs and Slovaks following independence will be a separate problem. How good they will be will depend on the manner and consequences of our separation. Although some signs are difficult to affirm, there should not be any conflicts. Some guarantee of this is provided by the relations between Czechs and Slovaks in the army, which are still good. In the present situation, one could even state that there are more serious problems between Czechs and Slovaks in the context of their nationalities than between Czechs and Slovaks in the army as two nations together. The determining factor is primarily the personnel in the supreme agencies of the two armies.

As far as the strategy and function of our army are concerned, these will be established on the basis of the

Czech state's interests, geopolitical situation, and international relations and will be consistent with the Czech state's doctrine and the future military defense doctrine.

It is expected that the army will be transformed in such a way that it will fulfill its functions more efficiently, make more effective use of the human, including citizens', resources at its disposal, and, at the same time, will not put too much strain on the state budget. For the time being, it is bearing the burden of the past—not only in respect to the manner of deliberation and style of management, command, and leadership but also in regard to the model itself, the organizational structure, and training. It was a clearly a coalition and alliance type of army and was not run exclusively by its own leadership and command. However, it had relatively good weapon systems, was well trained, and sometimes maintained too high a combat-readiness. If one compares the number of soldiers with the number of citizens, it was one of the largest in the world (only Romania, the DPRK [Democratic People's Republic of Korea], and Israel had larger armies in this sense). Even in the estimation of Western experts, our army had a relatively high standard and was relatively modern.

At the present time, it is clear that we will certainly not have enough resources to develop a contemporary type of army. Therefore, during the transition period, it is necessary to make use of what we have at our disposal, within the framework of international agreements, and, at the same time, to modernize the army in conformance with the future model. Serious consideration is being given to the latter at this time. Overall, the basic idea is that the army must be able to confront any dangers that threaten us. At the same time, it is obvious that it would be difficult for us to defend ourselves against a large country—like, for example, Germany or Russia—or a coalition of countries. Realistically, however, we can defend ourselves against dangers from smaller neighbors (should they arise in the future), as well as against the consequences of the uncontrolled movement of foreigners in our territory, the danger of terrorism, and so forth, although this is a matter for the police up to a certain point.

From the discussions about the future concept and model of the army, it is apparent that some military experts basically wish to maintain the present concept of the army structure and, at most, are willing to reduce the size to a specific functional level. Other experts (under the influence of discussions abroad) are inclined toward an unconventional type of army—a combination of rapid reaction and deployment units, and variously organized territorial armies. Then there are individuals who are seeking to meld some of these ideas; this consists of maintaining the present model of the army for the transition period, during which a new model will be created. There probably is no other solution if our defensive ability is to be preserved throughout. Of course, everything depends on the resources society will

provide for the army. At the present time, however, only 11.4 percent of the budget is allocated for modernization.

It is obvious that ensuring the security of a country as small as the Czech state can never be absolute. Therefore, every small state must enter into international, legal relations with other countries, create various coalitions and alliances with them, and seek their support to protect mutual international political interests.

During the past three years, we have been relatively active in relation to supranational institutions. As far as the UN is concerned, we consolidated our position especially through the participation of our units in the Persian Gulf and Yugoslavia. In 1990, within the framework of the CSCE, we proposed the establishment of a security commission as a nucleus for the new European security system. However, from the security point of view, the CSCE has not yet asserted itself to any degree in Europe.

We are maintaining active relations with the International Monetary Fund, the World Bank, and the European Bank for Reconstruction and Development. We are in a similar situation in relation to the European integration organizations—the European Council, the EC, and EFTA [European Free Trade Association]. We took an active part in the disarmament talks in Vienna.

Among military organizations, ties to the Western European Union and NATO come into consideration. Although the WEU has been activated, this revived union of nine West European countries cannot compete with NATO because it does not have the support of any military power comparable to the United States. Therefore, only NATO can be considered for military contacts.

It should be pointed out that NATO was just as unprepared for the breakup of the communist system as the West, and, therefore, it is still seeking justification for its existence as well as a new form. At the beginning of the breakup of the communist world, while the Warsaw Pact and the Soviet Union still existed, there was a trend toward getting some countries, especially those in Central Europe, into the Western military alliance as quickly as possible. Accommodating steps were visible, especially in relation to Poland and, to some degree, Hungary. Poland primarily had problems with the withdrawal of Soviet troops from its territory, something Czechoslovakia had achieved relatively quickly, and, to some extent, this determined our attitude toward NATO.

Following the first signs of destabilization in posttotalitarian countries, NATO became more reserved toward the countries of Central and Eastern Europe. The main reason was the danger that it could be drawn into potential conflicts in this geopolitical region that was becoming increasingly destabilized. Therefore, some countries' attempts to join NATO were rejected. In the final analysis, one does not apply to join NATO; one is invited to join if all of the member countries of NATO

give their unanimous consent. However, this possibility is merely theoretical because, due to the economic recession, the West is unlikely to be interested in paying for an expansion in the ranks of its military alliance. The days when it strove to get, for example, Turkey or Spain to join is long gone because the bipolar world has disappeared. This option would only be possible if a new, serious threat to security were to appear (e.g. the return of totalitarian rule in Russia, a significant increase in fundamentalism, etc.).

The culmination of all attempts to date to have reciprocal military contacts between the East and the West was the creation of NACC on the basis of a decision at the meeting of the highest representatives of NATO in Rome in November 1991. The NACC—North Atlantic Council for Cooperation—which, at this time, has 37 members (including republics from the former Soviet Union), is mainly an advisory body where mutual experiences can be exchanged.

NATO has justified its existence to date primarily because of the instability of the European postcommunist region, the spread of fundamentalism, and the danger resulting from the dissolution of such an organization, which is essentially the sole guarantor of security—for more than just Europe.

Despite all of the restraints mentioned above, we should at least make a more detailed analysis of, for example, Spain's experiences from its subsequent entry into NATO. In addition, information programs, professionalization, and logistics should be oriented toward ensuring compatibility with NATO, a task that will naturally take a long time and be very expensive.

It is clear that our security policy must be realistic. The West is unlikely to ensure our security, especially after a significant part of the U.S. troop withdraw from Europe (only approximately one-third—that is, less than 100,000 soldiers—will remain after 1995). Therefore, without giving up on our attempt to approach NATO in our security policies, we have to look for other partners, especially the Visegrad Four, and we must also ensure some degree of security through independence. The best guarantee of our security will be through strengthening our ties to the EC.

*** Army Role in New Country Examined**

*93CH0463B Prague A REVUE in Czech 17 Feb 93
pp 8-9*

[Article by -SV-, -KT-: "Army of the Czech Republic—A Reality"]

[Text] Maxim: "The Army of the Czech Republic must be smaller and of a higher caliber."

Since 1 January 1993, a new, independent state can be found on the geopolitical map of central Europe—the Czech Republic. The path to its creation was marked by

many confrontations between political parties, economists, and citizens' initiatives, as well as between the citizens of the former CSFR. All of this was projected into the debates in the Federal Assembly, the Czech National Council, and the National Council of the Slovak Republic. There was a very wide range of opinions regarding the further existence of a common state of Czechs and Slovaks: from a unitarian state, via a union, confederation, functional federation, through to two independent republics. The result of a number of deliberations, analyses, talks, and compromises is the existence of two states, which believe that independence will provide them with a better future, not only in the context of Europe but also of the world.

A New State—A New Army

An integral part of every state is the army. The concept and role played by our Army will be determined by the foreign policy of the Czech Republic; its needs, size, and make-up will be determined by the threats to the security of this country.

The idea that a symbolic army is acceptable for an independent state is a delusion. A country must have a functional and efficient army. When establishing the military doctrine, one must consider not only all potential threats but also the probable development of the international political situation, especially in regard to the geopolitical region of Central and Eastern Europe. The realism of the military doctrine thus creates the basis for the creation of a functional army. We should have no illusions that we would be able to ward off the real dangers that will appear (and that surely exist) alone. However, a viable and efficient army is one of the conditions for acceptance into the present and newly created security systems. In other words: If someone else is to be willing to protect us, we must provide our own investment and accept our share of the responsibility. This means that we must have an army that can be a partner, that is capable of participating in all security actions that may arise in Europe, an army that the present security systems will be willing to accept into their midst. It is a highly political, and simultaneously economic, issue. Our army will gradually adjust to West European standards. But this will be a long-term process.

A prerequisite for stabilizing Europe is the inclusion of all democratic countries in one security system. Our aim is to become part of NATO because it is a real, functional power, which, on the basis of a political decision, is capable of instigating certain military-type actions. But one must also acknowledge the fact that NATO, in its own way, is changing internally. It is establishing a new strategy for the future. It is perceiving the breakup of the bipolar world with sensitivity, and it does not expect conflicts between large, massive armies. It is trying to find a system that would be able to preempt crises: crisis management. But one must also take into account that Western Europe is seeking other options within the framework of the Western European Union—in addition to NATO. Last but not least, there is the entire

CSCE system. It is from these facts that our country's security must evolve, and the Army must react to it in an appropriate manner.

At this time, there is no question of joining NATO directly, but of drawing closer to it gradually, of adapting to this organization, and of ensuring that the results of the Army's restructuring will be an army that is compatible with units with West European standards. After all, the question is not whether we want it but whether they will want us. It is a long-term issue that depends on a number of predictable as well as unpredictable factors.

Smaller, but of Higher Caliber

What should the Army of the Czech Republic be like? The answer is relatively clear. Smaller, but of higher caliber. Thus, the answer is simple, but its implementation will not be so simple. This is not merely a technical and administrative matter. It is a highly political problem. This is substantiated by a myriad of opinions and ideas that were presented to both experts and laymen. The opinions range from totally nihilistic ones to absolutely pragmatic ones; from total rejection of an army, via an army based on a militia system, via the euphoria of the quick creation of a professional army, through to the creation of a semiprofessional army. There were obviously different motives for these opinions. But, ultimately, common sense prevailed as well as—let's state it openly—finances.

Thus, the Army of the Czech Republic is being set up as a semiprofessional army. Despite the fact that it is to have a civilian character, it will, in its way, represent a certain part of society with precisely defined tasks that will be executed by both professional soldiers and soldiers in basic training as well as civilian employees in the Army administration. Primarily, they are all to defend the democratic principles of a new, modern, prospective country in Europe. However, this means that one must gradually change the internal structure of the Army, its internal relations, and the social climate in the Army. In other words—change the spirit of the Army.

However, the Army cannot fulfill this task without the appropriate external conditions and without the assurance that the people consider it to be their army. And this is a task for all of the citizens of the newly created state. It will probably not happen immediately, and it may be necessary to overcome a number of obstacles and misunderstandings before those who will be finishing their basic service will consider it to be purposeful. Only then will we be able to say that we are succeeding.

Prepared, organizational changes should contribute to this. One of them is reducing the durations of basic military service to 12 months. This will naturally necessitate essential changes in the system of manning the Army (four enlistment dates for draftees) as well as in the whole system of practical preparation and training of soldiers (it will be confined to separate cycles—six weeks of basic training, then six weeks of advanced training, selection to noncommissioned officer schools, three

months of noncommissioned officer schooling, and then half a year of activities, with the possibility to demonstrate what one has learned). At the same time, the branches and units must be relieved of activities that hinder them unnecessarily (frequent reassignment, the amount of time spent guarding various properties, through to providing service for relevant intrabranh services, such as the heating in the furnace rooms, and so forth). Therefore it will involve 12 months of training that will be more concentrated and will not be disrupted by anything, so that a soldier going into the reserves will be fully capable of mastering his relevant specialization should the country be put on military alert.

However, many young men refuse to serve in the Army. In the past, the practicality of introducing civil service, at the very least, turned out to be fraught with problems. Therefore the Army of the Czech Republic is considering unarmed service. This means that young men would train in areas that can be integrated into civil defense, into a comprehensive defense system. Stated more specifically, they would train as firemen, chemists, health-care workers, rescue workers, and so forth. But all of this depends on the acceptance by the CNR [Czech National Council] of the proposed measures and their being made into law.

The caliber of the Army will certainly be affected by the fact that, as far as professional soldiers are concerned, service is not expected to be a life-long occupation but should last only a certain length of time (although there will naturally be exceptions). Training the command staff will correspond to this and will make much greater use of civilian schools and studies abroad. Many more civilian employees will work in the Army, including some in leading positions. The result should be a higher technological readiness of the Army, despite the fact that the number of members will decrease. A different organizational structure, which is not based on divisions like the present one, is also being considered because the independence of smaller units and their operational flexibility must be increased. A different territorial defense system is also expected, which would be formed by a second sequence.

However, a smaller army does not mean less work, and it certainly does not mean a decreased need for financial resources. Quite the contrary. The Army must modernize its technology, and it must adapt it to the standards of armies in developed democratic countries. Our Army will continue to go through the process of reorganization and relocation for some time. Many people connected with the past regime left and took their experiences with them. From many aspects, this is right. One must get rid of useless experiences. But not everything was bad and worth condemning. It is and will be up to our Army's present command staff and the people who will gradually join it as to how they will deal with the present situation and whether they will be able to create a functional army: an army in the spirit of democracy, with a high level of discipline, yet one that

recognizes the individuality of the soldier. After all, our ultimate goal is a professional army.

The People Will Decide

Yes, it will be exclusively up to the people as to what the Army of the Czech Republic will be like. After all, no "people's" system, however well it is set up and worked out, can operate automatically, on its own; it can only do so if it is bound to its creator, to his thinking and his actions. Admittedly, we had innumerable different systems in the past, but they were not really systems. They were merely representations of subjectivistic and voluntaristic conglomerates and configurations of various spiritual and material elements, which often had no connection to one another or were merely "integrated" in a way that suited their "creators"—in fact, suited only them. Thus, the members of the Army, generally speaking, were only passive pawns on the chessboard of the men who held the power and the office. Expressed differently, a totalitarian state needed only a totalitarian army. It had no need for truly active individuals but merely for a shapeless mass of people....

It is not by chance that one now talks more frequently and emphatically about the need for a systematic approach to solving all issues in relation to the development of our country as a rule-of-law, democratic state, as well as about the democratization and humanization of the Army. That does not mean that one would not proceed in this manner, that there would be no results, but it is an expression of the fact that this approach is always topical and timeless. Apart from this, the steps taken toward transforming the isolated soldier who is consciously excluded from society into a soldier-citizen are completely conclusive proof. In the newly established Army of the Czech Republic, one expects to have such soldier-citizens, just as one assumes that the intra-Army as well as society-wide conditions and atmosphere will act ever more favorably on his consciousness and actions, on awakening the feeling that his service in the Army is not merely a formality and pointless burden but a purposeful expression of his share in the administration of public affairs; that it is not a dogmatically interpreted duty but a right, a democratic alternative of free choice issuing from his relation to democracy, humanism, ethics, and to other generally recognized values. Only a young man who truly identifies with them can develop his abilities in this specific activity, can satisfy his needs and act in a way commensurate not only with his beliefs but also with the interests of fellow citizens.

What About a Christening Present?

Whether one likes it or not, the Army of the Czech Republic is not being created "on a lush meadow." Let us not forget that the present widespread political opinions view the Army of the past in a very negative light and that it was the gentle revolution that initiated its literally revolutionary transformation from an army of a totalitarian state and one party into a democratic army

founded on a civilian basis. This meant working out a new military doctrine and gradually putting it into practice, starting the democratization and humanization of military life, implementing basic changes in personnel, and accepting a number of other measures to attain this objective.

"The systematic implementation of these prerequisites by the supreme state and Army agencies, management staffs, and commanders on all levels represent the value on which the new Army will be based and which it will continue to consolidate and spread. After all, in principle, nothing substantial can be changed in this process. It really is a matter of optimizing its future course through first-rate decisions, so that effort and resources are not wasted. The transformation of our Army is an integral part of this process. It consists of structural changes and changes in the approach to the performance of service, and in the modernization of armaments and military technology (however, the subsidy from the state budget at this time merely covers its operation). Its purpose is also to reduce the numbers in the Army—by 1997, the Army of the Czech Republic should be made up of 93,000 individuals.

"Slimming down" the Army as a whole is one of the prerequisites for raising its caliber, one of the prerequisites for fully meeting the criterion of adequate readiness and for completing the creation of a semiprofessional, later a professional, army that corresponds to West European standards. At the same time, one must incorporate everything that will stabilize social securities, especially for professional soldiers, and finish creating the entire system of training the course of their service.

One must also continue to maintain relations with the armies of developed democratic countries and our neighbors because it is becoming clear that these contacts bring mutual benefits and that they help to open the road to European security structures for us. However, one of the prerequisites is that we convince them that we rely on ourselves, first and foremost. This is not a task for the Army alone but for us all. The Army of the Czech Republic is now a reality, so let us all do what we can to make it participate in the execution of this joint civilian task with dignity and honor, using its specific resources.

* West Bohemia Readiness Regiment Viewed

93CH0463C Prague A REVUE in Czech 17 Feb 93
pp 11-13

[Article by -SV-: "In the Readiness Regiment"]

[Text] We visited the mechanized regiment in Mariánské Lázně several weeks before the breakup of the CSFR—that is, before the creation of two independent states and their armies. Naturally, this was reflected in some ambiguities that "hung in the air" and limited the options during our meeting with the commander of this unit, Lieutenant Colonel Eng. Michal Vass. Nevertheless, at least from the purely professional aspect, there was plenty to talk about. After all, it is a readiness unit.

Reorganization and Relocation Have Ended

These parallel processes, which were initiated in connection with the new military doctrines, were not and are not a one-time issue, and, therefore, they have been proceeding in the Army for some time. They were made more difficult by the unexpectedly quick resolution of the constitutional issue and by problems that issue directly from the dynamics of both these processes and affect both the material base of the Army and all soldiers and civilian employees, including the public. Unfortunately, our citizens do not always take a responsible stand to the issues of state security. As a result, there were several cases where some representative groups opposed the garrisons being stationed in their town or community. As the commander of the regiment told us, this atmosphere and the general movement in the Army affected and still affect his unit, but they do not manifest themselves in a way that would irrevocably affect his activities or that cause problems with which they cannot deal. There was one great advantage in that the unit was not stationed elsewhere but remained in the same barracks and other properties where it had been before. However, one branch was discontinued, so they assumed its tasks, and, in addition, they have to guard other buildings and areas that have already been abandoned by the Army but do not yet have anyone to run them. Although these tasks are a burden to them, they know that there is no one else to execute them. They would be very happy if at least the anabasis of selling abandoned military properties would end. Despite these disruptive influences that threaten the continuity of executing their primary tasks, the commander of the regiment was able to report to his superior in the middle of 1990 that he had completed the rearming of the unit. What does that mean? The exchange of older military technology for a more modern one, specifically of military infantry vehicles and tanks, as well as the transfer of technology to other units, including those in Slovakia. According to Lt. Col. Vass, this rearming proceeded smoothly and on schedule.

After rearming, the unit tackled the greatest changes that turned a motorized rifle regiment into a mechanized regiment. Because the Karlovy Vary division is a readiness troop, this was not merely a matter of a few cosmetic adjustments but of fundamental reorganization, with which they struggled through to the end of September 1991. Apart from rearming the battalion, they changed from the organization of antitank units and Ad artillery into batteries to organizing them into detachments, and they executed some additional structural changes in the units.

During the spring of last year, the regiment established a noncommissioned officer's school that trains squad commanders and riflemen-operators for military infantry vehicles. The older readers will probably remember that, from the beginning of the 1960's, every troop and regiment trained its own squad, services, and corps commanders, so this is nothing new. But one thing will probably surprise them and that is that "the soldiers

are not rushing to get into this school," as the lieutenant colonel told us. As an explanation, he added that it is apparently the consequence of an age-old problem that, from the various reasons given by new soldiers who had been selected to attend this school, can be summarized as follows: "Why should I worry about and be responsible for others when I need be concerned only with myself?" Because the training of the lowest ranks of commanders and specialists is certainly one of the most important tasks, Lt. Col. Vass talked about it in some detail. But we will return to that.

The culmination of the relocation and reorganization was completing new number charts for staff and in units (the charts are valid as of 1 November of last year). Despite some weak points, the commander of the regiment considers them to be very positive. "It is good," he told us, "that duty officers have been instituted and that their ranking has been changed. The regiment's staff has been increased, the performance of functional duties has improved in individual sectors and individual areas of expertise." The chief of staff now has more officers to work directly in the units, for supervisory activities, and the excessive burden on professional soldiers has eased. The commander of the battalion now has all of his deputies, and that must be making a mark somewhere. In addition, they are also systematically placing two professional soldiers in positions of command in every troop in this regiment. But the situation is not ideal and problem-free even here. Lt. Col. Vass's greatest problems are with the staffing of the tank battalion, where, at this time, he lacks two troop commanders. Therefore he asked us whether we, too, could use the resources at our disposal to let any officers who are interested in position and would like to serve in Mariánské Lázně to get in touch with him.

Primary Tasks at This Time

The supreme task at a unit of this type, of course, is training. But providing it and its quality depend directly on staffing the positions of commanders and military specialists in the staffs and units. It is difficult to imagine that the regiment could be viable without these individuals. "We were told by higher echelons that professional soldiers would be crowding the gates of the barracks demanding work. But I have not seen any sign of it yet," said the commander. "Admittedly, from time to time an odd officer or warrant officer turns up, but either he has already been turned away by others, or he is of the opinion that he would get a cushy job here." But even these were rare occurrences. Professional soldiers have simply disappeared. They do not exist. At least not where they are needed—in the units. Quite a few became civilians, many were transferred (young officers with Slovak nationality went to serve in the Slovak Republic), the older ones left when they reached the age limit or retired. As a result, there is a lack of some military specializations. In the regiment, this is clearly visible among the tank drivers, as well as other specialized positions. Although the financial situation of the command corps has improved a little, the young men, in

particular, are still looking around for something where they can earn more. Thus, the Army is losing the men who are of greatest interest to it. At this time, the commander has 26 applications on his desk from professional soldiers who wish to either leave the Army or be transferred. Relatively speaking, this is not a large number, but things do not look very positive as far as replacements are concerned. Yet the regimental command is doing everything it can to ensure that the command corps has pleasant conditions in which to work. The unmarried men live in a nice building with small apartments, and housing for commuters is also gradually improving.

Great attention is given to the noncommissioned officers school at the regiment. We have chosen the best commanders we have to attend the PS [Noncommissioned Officers School], and I am truly satisfied with their work. It is a joy to see the ranks of the units, the commander told us and continued, "apart from the fact that we train squad commanders and riflemen-operators, we also need other specialists. But they are trained outside our division. And though we have problems in selecting people to attend this school, the situation becomes worse in regard to the willingness of soldiers to go to it or to attend courses located in more distant garrisons." Young soldiers nowadays simply cling to the place where they are doing their service; they do not want to travel any distance at all. Thus, the territorial aspect of recruiting new men for the troops not only has its assets, but it also brings new, unprecedented problems and difficulties.

The alpha and the omega of life in and the activities of the regiment is training. Under the conditions in this unit, this is not a simple slogan; it is a reality that occupies both professional soldiers and soldiers in basic training every day. One of the principles is that the commander has to train along with the unit, even when some soldiers are missing for whatever reason. And there is no doubt that there are plenty of "whatever" reasons. After all, the regiment not only has to train, it also has to live. This means that it must have boilermakers, stockkeepers, various aides, and so forth, and so forth. If they are scattered throughout the units of the regiment, there is a high absentee rate every day, and the training is not effective. Rational commanders are seeking ways to deal with this fact, ways to make sure that training will not be disrupted in this way. In Mariánské Lázně, all of these soldiers were gathered together into one troop—and their problems were solved. Although this is an internal matter and this kind of organization does not exist on any chart, it has proved itself because this service troop, as they call it, fulfills its purpose. Through a thoughtful approach toward ensuring the task of training, they succeeded in consistently executing separate subtasks last year (starting with the training of individuals and ending with combat sharpshooter squads) as well as in dealing with the new requirements for complete readiness of units and of the whole regiment. Apart from this, they executed any number of other tasks such as crash-driving courses, switching the technology to summer and

winter operations, its storage and transfer to other units, command occupations, and so forth.

An important prerequisite for all activities and thus a continual task is observing and improving military discipline, parallel to the process of democratizing and humanizing military life. Apparently these are not compatible, and occasionally conflicts arise, both in regard to opinions and to practice—not only among professional soldiers but also among soldiers in basic training. In the former case, it is caused by a rigid interpretation of command authority, which eliminates all—that is, even constructive—opposition. In the latter, it is due to the insistence on the absolute freedom of the individual, and thus ignores the demands of military rules and regulations. The line between these extremes is not as sharp and clear in practice. Nevertheless, (when negative manifestations crop up among the soldiers) it is due to a lack of understanding on both sides, of actions that go counter to the spirit of a democratic army. In this regiment, they are honestly trying to deal with the anomalies in interpersonal relations among all groups as well as within these groups. That is why they lay great emphasis on preventing these manifestations, both through behavioral education by the commanders of the units and through the activities of social workers. It is worth noting that, according to the lieutenant colonel's experience, the local priest's work provides the most effective spiritual influence. His lectures and meetings are among the most frequented and evoke a very positive response among the soldiers.

Although the duration of the professional soldiers' influence on soldiers in basic training has decreased, due to the fact that many of the "basics" leave to pursue private interests outside the barracks as soon as they have executed their daily duties, the professional soldiers are still responsible for their behavior and actions in public; despite the fact that soldiers in basic training are citizens (they usually wear civilian clothing), they are members of the Army, and the local citizens know it. Therefore, the regimental command works closely with the local police, and it has become apparent that this is bringing positive results. Even when they are outside the barracks, the soldiers have to remember that they should avoid all "clashes," and they may not assume that they are anonymous merely because they are not wearing their military uniforms.

Sources of Future Success

Lt. Col. Vass is an extremely optimistic person, although he openly told us about some fears issuing from his many years of experience in his position as commander. It really is high time that our supreme representatives and executive bodies passed and organized all of the legislation relating to the Army, possibly starting with the length of basic military training and ending with the professional soldiers' social security. "Once these issues have been resolved, we will be halfway down the road to success," he told us. After all, regardless of what changes are carried out in the Army, they always concern people

to some degree. And, despite all technological development in the military, they are still the major factor that determines its degree of readiness. It would be wrong to pretend that everything is in order in this area. Perhaps the gradual reduction in the size of the Army, proportional to the needs and abilities of our country, will favorably affect the living conditions and activities of its members and improve the material base for the performance of their functional duties. This is an area in which one cannot improvise, although we will certainly only be able to afford what we can pay for. The regiment's barracks in Mariánské Lázně is, luckily, relatively modern, but, even so, there are several things it needs—for example, washing facilities, a meeting hall, and so forth, not to mention modernizing the training base.

The commander expects a lot from the new training system, which will be implemented in three-month cycles. The former one would certainly not be suitable for the 12-month basic service. However, in his opinion, the new system will demand changes in the stereotypes of planning, in the training of staff and subordinate commanders in respect to the organization and methods of training and its provision, and ultimately it will increase the demands on the soldiers themselves. They will have to acquire more knowledge and practical experience in a shorter time than their predecessors.

To ensure the continuous readiness of units, the number of enlistment dates for draftees will be increased from two to four, which will not be easy, either. And one must not forget the training of the reserves. After all, this will not be merely a technical, administrative matter; it will mainly be a matter of filling the ranks of the units smoothly and without disruptions. "If we succeed in installing this system in a consistent way, we will have covered the rest of our road to success," Lt. Col. Vass told us at the conclusion of our meeting. And we hope that he will succeed in fully implementing what he has resolved to do. After all, he commands a readiness regiment, and, unfortunately, we still need such units today.

* Economic Transformation in 'Difficult Phase'

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[Article by Milos Pick of the Czech Republic Academy of Sciences' Forecasting Institute: "Is Our Economy Repeating 1991? The Economic Transformation at the Onset of a New Difficult Phase"]

[Text] *As early as 1991, the transformation of our economy had reached a critical crossroads. In 1992, it embarked from this position on an escape route. As the first month of 1993 already has signaled, it is now entering a new and different phase.*

Estimates of changes are always connected with considerable uncertainty. In this case, however, the uncertainties are exacerbated by the fact that the manifestations of these changes are still in their infancy (even though their

prediction was "ripening" as early as the second half of last year). Information regarding these changes is only limited and unreliable, and the economic policy (particularly the monetary policy) for this year has not been fully developed. Consequently, these considerations can only be in outline form, open and conditional in character. The urgency of solving the new situation, however, prompts us not to wait for possibly more accurate but delayed forecasts.

In 1991 (as a result of the great transformation shock), the price explosion raised price levels in the first half of the year by about 50 percent (in comparison with 1989, the increase was about 80 percent), and the gross domestic product [GDP] dropped by almost a quarter in comparison to 1989 by the fourth quarter.

During 1992, the economy became temporarily stabilized. The annual growth of consumer prices amounted to only about 13 percent, the rate of exchange was stable, and the GDP stagnated approximately at the level of the fourth quarter of 1991.

In 1993, however, both shocks characteristic of 1991 are beginning to be repeated (at an appropriately lower level): a new inflationary leap and an additional decline in the GDP. Their extent and velocity will very likely exceed current estimates.

Acceleration of Inflation

According to government anticipations, the annual rate of inflation for 1993 should amount to "only" about 17 percent (including 5-6 percent as a result of the influence of the introduction of the new taxation system).

According to the analytical-forecasting institute of the Czech-Moravian Chamber of Trade Union Associations, however, the annual rate of inflation in 1993 will reach a minimum of 25 percent. Of this figure, tax reform is expected to account for 7.5 percent, and the consequences of already adopted and prepared measures to increase or deregulate hitherto centrally regulated prices (including temporarily deferred increases in transportation tariffs, but excluding the seemingly definitively deferred increases in rentals) are estimated to account for 6 percent. Ten percent remains for all other influences (including the consequences of last year's crop failure and the increased cost of foods and current price developments)—that is, less than the growth amounted to in the stabilized year of 1992. The trade union estimates indicate an 8-percent price jump in January, something that reflects published statistical results (a growth of 8.5 percent was recorded).

In addition, a further inflationary factor could also be represented by the government-initiated deregulation wages. Now, sanctions may be invoked only if real wages grow by more than 5 percent (that is, if the growth of nominal wages outstrips the measure of inflation). According to hitherto unpublished estimates, the mild growth of real wages amounted to an average of perhaps 2-3 percent, with the trade unions monitoring adherence

to the existing level of wages during collective bargaining negotiations at a minimum. Given the anticipated (below listed) decline in the GDP, however, renewal of growth in productivity is unrealistic as long as mass bankruptcies do not take place; otherwise, a further decline in production in existing capacities would have to be "forestalled" by reducing employment. Given stagnation or a decline in productivity, however, the growth of real wages can create pressure on the growth of per unit costs, on a further decline in profitability, or on a further increase in prices.

According to the pessimistic variation in which trade with the Slovak Republic is restricted and imports from Slovakia are replaced by imports from third countries valued at as much as \$1 billion, inflation could be further accelerated (by about 5 percent).

An excessively high measure of inflation, which could already pose a threat to the balance of payments with foreign countries, could result in multiplications. Discussions thus far continue to be heard regarding the immediate revaluation of the Czech koruna under the influence of previous payments surpluses and the extreme ratio between the parity of the purchase price and the koruna rate of exchange. This ratio is achieving a multiple of approximately 2.5, whereas, for example, the zloty and the forint are at multiples of only 1.6-1.7, respectively. However, in 1992, the balance of trade of the Czech Republic ended up (according to still incomplete preliminary estimates) with a sizable deficit (approximately \$800 million—that is, about 9 percent of imports), involving not only the former socialist countries (which had a 27-percent deficit in terms of imports), whose markets Czech Republic exports are continuing to abandon, in contrast to the Slovak Republic, and exports from the Czech Republic to these countries declined by another 40 percent, but the decline also involved developed market economies (a deficit of 8 percent of imports). If, in 1993, even in the face of a declining GDP and the quieting down of an import-buying fever, the surplus that exists in the export of services (particularly transit shipments and tourism, where we still do not know how these factors "characterize" not only our stability, but also any additional new limitations) is not sufficient to cover the commercial deficit, and, if an effective selective proexport support policy has not been finally implemented and an inadequate solution were to be selected—the solution of additional devaluation—inflation would continue to increase.

Additional Decline in the GDP

Some economists (K. Dyba, I. Kocarnik, and I. Suján) considered the temporary mild increase in domestic demand (in the Czech Republic, this demand was particularly consumer-oriented, in contrast to in the Slovak Republic, where it had more of a capital investment character) during the second half and particularly during the fourth quarter of 1992 as being a sign of the revival of the economy of the Czech Republic. However, the turn of events more likely indicates that the seeming

revival was more a consequence of temporary devaluation-inflation expectations and conduct on the part of the population (the import buying fever) as well as the conduct of enterprises and banks. It first turned up on financial markets and gradually also on commodity markets. The population was "choosing" beginning with the second quarter of the year: The shift in increments from koruna savings to increments of foreign exchange savings took place, and, in the fall, koruna savings already began to decline in the Slovak Republic and to stagnate in the Czech Republic. The demand by the populace for goods and for the hoarding or stockpiling of not only items of long-term consumption but also those of current consumption rose. The demand by enterprises for capital loans, foreign exchange, and imports rose. Even the demand of commercial banks for foreign exchange and the foreign exchange reserves of the bank of issue increased and spilled over into deposits at commercial banks.

The Causes

The immediate cause was clearly the expectation of the consequences of the tax reform (which was being introduced as of the beginning of 1993) and the currency separation. However, these spontaneous expectations being expressly escalated by some economists and some communications media (particularly in recent times in the Czech Republic) were taking the currency separation "into their own hands" (much in the same manner as the Harvard Investment Funds had taken the coupon privatization competition into their own hands, or rather, the recruitment of holders of investment coupons) and thus accelerated it to a considerable extent.

The primary cause, however, is the immediate halting of existing fiscal assistance by the Czech Republic to the economy of the Slovak Republic, beginning in 1993. (In 1992, it amounted to about 3-4 percent of the GDP of the Czech Republic—that is, approximately seven to eight times the GDP of the Slovak Republic.) This financial aid had been compensating the balance-of-payments deficit the Slovak Republic had with the Czech Republic. The result of halting this aid is not only the currency separation, but clearly also the early devaluation of the currency of the Slovak Republic, which will make Czech Republic exports to the Slovak Republic more expensive so that, by reducing these exports (or by increasing Slovak Republic exports to the Czech Republic), the existing payments surplus of the Czech Republic would be overcome. This would reduce the Czech Republic GDP approximately by the above-mentioned 3-4 percent.

The effort to immediately "cut off" its surplus would primarily result in lowering the cumulative offering made available by the Czech Republic. A shift to third markets is now not easy. Domestic demand (including public demand) keeps on declining. A shift to anti-import deliveries (replacing the existing imports from the Slovak Republic, as is already happening) would, in contrast, act to expand the payments deficit of the

Slovak Republic and thus would accelerate the spiral of decline; and it is precisely the devaluation of the Slovak koruna that is intended to prevent this kind of shift.

However, other factors are contributing to the more express decline in mutual trade between the two republics, including the administrative barriers of the newly created mutual customs and tax border, uncertainties at enterprises regarding the method and reliability of settling mutual deliveries and payments obligations. In conjunction with mutual insolvency among enterprises, this also is the legacy of the former CSFR bequeathed to both new states.

According to investigations conducted, exports by Czech Republic industry to the Slovak Republic had already declined by 15 percent in 1992 (Slovak Republic exports to the Czech Republic had declined by 22 percent), and, as of the beginning of 1993, exports have been specifically disturbed. J. Tosovsky estimates the decline in mutual business or rather exports by the Czech Republic to the Slovak Republic this year at 30 percent. V. Dlouhy characterizes the decline at 40 percent (leading to a drop in the GDP of 5-6 percent) and considers this to be a catastrophic variation.

Restriction Will Intensify the Decline

In addition to limiting mutual trade between the two republics, the development of cumulative demand and thus of the GDP of the Czech Republic can also be influenced by additional factors, particularly by the continuation of a restrictive macroeconomic policy.

The fiscal policy (approved public budgets) silently anticipates a real decline in expenditures for public consumption (noncapital expenditures in these budgets without transfers to the populace), about 5 percent, given the government-anticipated measure of inflation, which, however, given the trade union estimate of inflation, represents a real decline of 10-11 percent in public expenditures (3 percent of the GDP). In view of the complexity and the inadequate preparedness of the tax reform, however, further increases in tax revenue losses cannot be excluded, something that would create pressure on the restriction of public expenditures by an additional, say, 8-10 percent or would result in a budgetary deficit amounting to about 2-3 percent of the GDP.

In terms of capital investment demand, it can clearly be figured that the approximate stagnation will continue, despite the fact that the pure volume of investments is negative (it does not even compensate for the obsolescence of fixed capital). Hitherto, the influx of foreign capital is predominantly acquisitive in character—it results only in the ownership of existing capacities but is only aimed at investing in their modernization or development to a very small extent; this phase will probably last for the time being as well as into the future. Restricting public investment, the above-mentioned pressure on reducing the profitability of enterprises and increasing interest rates on loans, together with sales

difficulties, will obviously act to restrict or even eliminate the positive influence of a reduced tax burden on profits and on the demand for investment.

Also, the economic situation in the surrounding world provides few prerequisites for overcoming the existing stagnation that is plaguing export demand in third countries.

Household Consumption

A mild growth could clearly occur only with respect to consumer demand by households. And even the social incomes of the population (based on public budgets) will realistically continue to decline (by about 2 percent, given the government-anticipated inflation, or by approximately 8 percent given the trade union estimates of inflation). This influence on the decline in the GDP (by about 1 percent) would, however, be approximately compensated for by the above-mentioned mild increase in real wages, provided the trade unions could actually achieve this, even in the face of a continued decline in the GDP and declining productivity and even if the government did not reinstitute wage regulation.

A more significant factor, however, could be the mass sale of coupon stock certificates (once stockholders receive these at the beginning of the second quarter), which would transform a portion of the savings into hot consumer demand. A sale involving one-third to one-half of these stock certificates could increase consumer demand by about 4-6 percent, which represents approximately 2-3 percent of the GDP. The trend toward higher household consumption will, at the very least, be temporarily attenuated—after inflationary expectations have been overcome and conduct has been adjusted (following currency separation), and after the tendency toward saving has been revived. However, it is possible to visualize not only motivational consequences, but also an influence on maintaining the already fragile social consensus (not to mention consequences for the fate of enterprises), when declining social incomes and, at best, a mild increase or stagnation in real wages would lead significant groupings of the population to increase their consumption on average by about one-sixth only at the cost of standing in line to acquire a coupon booklet.

If this were coupled with pursuing the intention of a neutral macroeconomic monetary policy, but if this intention were derived from the government-anticipated rate of inflation (this would be reflected by a 15-to-20-percent increase in the money supply), it would represent (given the trade union-anticipated inflation rate) a real restriction of the cumulative demand by about 4-8 percent (which would be approximately commensurate to the above-mentioned estimates for development of demand by segment). And even the Czech Republic (or rather the CSFR) had verified the theoretical finding (in practice) that restricting cumulative demand is ineffective in the face of cost inflation and only suppresses real supply (GDP). For the present, it is

impossible to estimate how monetary policy will react to the above inflationary developments.

The decline in the GDP could be further intensified on the supply side by the startup of a wave of bankruptcies according to the law on bankruptcies that is to become effective as of the second quarter of 1993. However, it is not out of the question that, in the given situation, the government might again defer this law. This could also occur because a solution that reflects the insolvency of the majority of the enterprises involved has not been prepared, and a further decline in the economy still further exacerbates the prerequisites and makes a solution more difficult.

Conclusions

The above-mentioned overview of contradictory factors (the most important among which is the disintegration of the economy of the CSFR into two economies and a restrictive fiscal policy), which are reviving inflation instead of promoting the growth of the economy and which are causing additional real declines, particularly in exports and public consumption, is only incomplete and approximate. There is also thus far no certainty regarding the development of the government's economic policy, nor regarding any possible adaptational processes. And, for the time being, it is not even possible to reliably evaluate whether these are not already signs of the stagflation "automaton," particularly along the line that runs from higher inflation to higher real restriction of public consumption and export efficiency through additional devaluation inflation pressures.

These incomplete findings, therefore, thus far do not justify an attempt to make a cumulative estimate of the pessimistic limits of inflation or a decline in the GDP. However, they already lend a considerable amount of probability to the fact that, given an unchanged economic policy, the rate of inflation of 23-25 percent and the decline in the GDP by 3-4 percent tend to represent the more optimistic limits of the likely developments in the Czech economy in 1993. However, it is impossible to exclude the possibility that, in spite of these developments, the rate of unemployment in the event bankruptcies are deferred can be even lower than existing estimates (4-7 percent), provided the enterprises will continue to be protected by the "cushion" of insolvency or will be able to continue "eating" their write-offs or the substance of their property.

However, the fact that the rhetoric is gradually adapting to reality, although not easily and with some delay, is a pleasant fact. Quite recently, we have heard that the adopted strategy of transformation is the only possible one. In other words, the elections in Slovakia actually firmed up Slovakia's unwillingness to subordinate itself to this strategy (rather than documenting Slovakia's economic and social unreality). We heard that, therefore, the division of the common state was not only essential for the Czech Republic but also beneficial so that transformation of the economy would not be hampered and

its beginning revitalization not be affected. Now, however, it is beginning to be recognized and admitted that the situation even in the economy of the Czech Republic has directly and seriously worsened as a result of the above and that additional large problems have been caused by these developments. This is at least the prerequisite for overcoming the psychological barriers that stand in the way of adopting even practical measures for solving this situation.

Preventing Risks

First, it is necessary to overcome the above-mentioned most topical risks. The most important thing now is to use an active economic policy to maintain (or to minimize the decline) the level of exports from the Czech Republic to the Slovak Republic and to preserve mutual trade involving both republics. Such a bilaterally advantageous proexport policy of the Czech Republic would represent a smaller cost even today than the consequences of a unilateral devaluation policy on the part of the Slovak Republic. A long-term government loan to cover the likely exceeding by Slovakia of the limit of its clearing credit as a result of the Czech Republic payments surplus would at least mitigate the consequences and would possibly prolong the opportunities available for adaptation. A more active solution in support of the Slovak Republic's competitiveness (for example, temporary intervention to reduce tax and payments burdens for Slovak wages) could perhaps save the common state on a timely basis or at least save the currency, and perhaps it is not too late for such generosity. But the later such a solution is adopted, the less effective it will be, and the worst would be no solution at all.

To mitigate inflation, the government should once more reexamine its price increase "menu" rather than have the bank of issue resort to a restrictive monetary policy again. Even if the balance of payments were to become worse, the bank of issue should not resort to devaluing the Czech koruna as long as the possibilities for a specifically selective proexport support policy have not been exhausted. A mild devaluation would be ineffective in terms of promoting exports anyway because it would not prove capable of drawing the more qualified processing products into exports to developed market economies, whereas the export of heavy primary products and consumer goods is limited by quotas in the West anyway.

Public budgets should seek additional resources not only by minimizing tax evasion and the stricter prosecution of such evasion, but could once more consider proposals calling for the introduction of a tolerable one-time tax charged foreign tourists (a free-currency "entrance fee") of perhaps 15 German marks [DM]. This would siphon off, at least in this most specific case, a portion of the disproportionately high advantage tourists enjoy, based on the hitherto extreme difference between the parity of the purchasing power and the rate of exchange of the currency. This could yield an annual DM1-1.5 billion, even given the likely reduction in noontime tourism,

which is ruining border region small business activities in neighboring countries. This move would very likely be perceived by them, or even welcomed, without reciprocal measures. And this is more realistic than a revaluation of the koruna. Not even privatization can afford the luxury of continued free entry, not only in view of the negative motivational consequences, but also because it must contribute to expanding public resources and make a contribution to macroeconomic stabilization.

Until stock certificates are issued to coupon stockholders and they are possibly subject to massive sales (or even show up on share listings of investment funds), preparations should be made for the possibility of an appropriate temporary regulation of the capital market—for example, by prohibitively taxing the sale of such stock certificates and promoting the advantaged intervention by the Fund of National Property.

An important further step should be the resolution of the massive insolvency on the part of the enterprises. First, mutual beneficence obligations should be eliminated in an operation directed and financed by the bank of issue (they should be recredited). Thereafter, a program of decontamination involving viable enterprises could be activated. Recidivism should be preventable by limiting interest margins (the span between accepted and granted credits) at commercial banks commensurate with world standards, so that the interest rates would not be intolerable for enterprises. This is the only way to open the way for bankruptcies without devastating and chain-reaction consequences.

Change the Strategy

Only this would make possible a return to developing the transformation process on the basis of the transition to its alternative strategy.

This strategy should have as its priority objective the revitalization of the economy and the creation of a competitive environment. The macroeconomic policy of revitalization should be oriented, on a priority basis, particularly toward an interventional proexport policy, toward the expansion of public investments, toward halting the decline in the real level of public consumption, and toward the growth of real wages, commensurate with the growth of productivity. In place of developing coupon privatization, primary emphasis should be placed on the development of the privatization of small and medium-size production enterprises that could rapidly create a competitive environment (on the basis of privatization loans).

The subsequent period until the achievement of full membership in the European Community should be utilized to effect structural adaptation of viable enterprises, even in some of their more sophisticated activities; large-scale privatization, which is also resulting in appropriate employee participation, should also make deliberate efforts to utilize the opportunities of foreign capital participation.

*** Progress of Privatization Investment Funds**

93CH0440C Prague EKONOM in Czech 18-24 Feb 93
pp 20-21

[Article by Eng. Daniel Podnecky: "Joint Progress"]

[Text] *In one of the recent articles on investment funds, I pointed to the development of cooperation among individual funds. This cooperation will have to be gradually expanded, along with growing problems, and it is important to always find acceptable ways out for all interested parties. At the present time, some burning questions are penetrating into the foreground. We shall gradually look at the most critical of these.*

The first area in which common progress on the part of investment funds is important is the question of transferring ownership rights in individual businesses. Although the fifth round was the last round, it will be at least March before ownership rights to individual enterprises will be transferred to stockholders. This should now be the principal task for the Fund of National Property—it should organize its work in such a manner that it would be capable of handing over ownership rights within the shortest possible deadline. Thus far, however, investment funds are encountering surprising information, which requires rapid and uncompromising intervention. The management of several corporations is making efforts to utilize the time before stockholder rights are transferred to true real owners for purposes of transferring property to another organization, to conclude disadvantageous agreements to the benefit of another organization (for the most part, a private organization in which family members of the existing management have an interest), for paying inappropriate wages and shares in the profits, and so forth, thus watering down the property of stockholders that cannot be reconciled with such a status. Moreover, these activities do not inspire confidence and promote many rumors. It can be stated with certainty that this does not benefit coupon privatization. The temporary solution of last fall, which consists of appointing a representative of future stockholders in all completely sold corporations in which investment privatization funds have a minimum of a 67-percent share by the Fund of National Property, is encountering a number of problems. The Fund of National Property is handing over a portion of its rights and the selection of a single representative from among potential owners frequently slows down unnecessarily long procedural questions. At the present time, the selection takes place primarily at three levels. The investment funds can be represented as follows:

1. By a legal entity: a fund. The investment fund can establish an association of legal entities: funds.
2. By an authorized individual: a private individual (which is guaranteed by the responsible administrator—that is, the "mother fund" of the authorized individual) or the legal entity. A fund is itself an authorized individual.

3. An individual.

In all cases, it is necessary to precisely stipulate the type of activities this individual is authorized to undertake and under what conditions this permission is granted.

No less problematic an area is the question of the economic viability of small funds. We frequently learn from the press that certain funds have merged with others. This situation fully corresponds with the expectations that the initial number of investment funds would slowly begin to decline. This is primarily given by the fact that the first wave of coupon privatization was protracted and that the expenditures that have been calculated by the majority of funds through September or October of last year are accumulating and, for the present, it is not possible to cover them on the basis of the 2-percent fee for establishing a fund. The interest on the loans these funds took to cover expenditures are reaching intolerable heights, and the funds continue not to have the resources to pay off the loans. To this can be added any obligations the funds promised their stockholders. Other reasons can be changes in founders, a loss of interest in administering a fund in view of the fact that the given fund failed to acquire as many investment points as the original founders had visualized, and many other factors. All of this culminates in the only solution: to merge with another larger fund that would be willing to accept the given structure of the portfolio and the obligations. The merger of funds is customary throughout the world, and they will not be an exception even in this country. For stockholders of funds that have been taken over, this means primarily a guarantee of professional property administration and a reduction in the costs, with the possibility of a higher yield. For the funds doing the taking over, the advantage of a merger consists of the possibility for the acquisition of a portfolio of enterprises in which it is interested and which it would otherwise have to purchase on the Stock Exchange at a higher price than that which results from the merger.

Another delicate problem is the organization of investment fund general assemblies. This problem is an acute one, particularly for funds that have more than 50,000 shareholders. In view of the fact that the possibility of participating in a general assembly is something new for our citizens, increased interest on the part of citizens can be expected. Perhaps the situation is not so tragic as it is seen by representatives of the largest investment funds, but, on the other hand, if we take the largest fund of the Czech Insurance Institution as an example and if only one-half of its shareholders attend, there will be half a million people present. Where should they meet, and who would permit such an assembly? Is it even possible to technically master such a meeting? To register the shareholders, to count the votes, to let them comment, to evaluate these comments, to vote on them? And last but not least, who will bear the cost of the entire action, which will definitely be a very important component in the overall expenditures of the fund? Perhaps this is the only question with a simple answer: the stockholders themselves.

What then is the way out of this enchanted circle? The Commercial Code does not permit anything but a direct vote at general assemblies. In the event of proxy voting, a notarial verification of a power of attorney will most likely be required. Other possible methods for reducing the number of shareholders are uncertain. No one can guarantee that shareholders will go along. The entire discussion of this situation indicates that there is a need to quickly find an acceptable solution in cooperation with state organs. The following two variations represent a pair of possible solutions:

1. Perhaps not the cleanest solution might be the transformation of large stock investment funds into share funds. The manner in which this transformation should take place is a secondary consideration. What is essential, however, is the fact that, under current conditions, it is impossible for it to proceed without the approval of stockholders. This solution would more likely be of importance for organizing general assemblies next year. However, appropriate legislative restrictions must be adopted now so that the first general assemblies that will be held in the near future could see such transformations take place with the approval of stockholders.

2. Perhaps the variation that calls for the implementation of correspondence-type general assemblies under previously stipulated conditions appears to be more plausible. This variation could be acceptable as early as the first general assembly and would in no way restrict the rights of a stockholder to express himself with respect to the appropriate transformation. Legislative support for such a general assembly could be arranged by a certain exemption from the law, which otherwise does not permit this process.

The above solutions require urgent legislative changes that would eliminate problems involved in the holding of general assemblies not only this year, but also in the future. At the same time, expenditures of the funds would be reduced, which would simultaneously result in increased yields for stockholders. It is up to the responsible organs whether they will permit such modifications (and under what conditions), or whether they will propose alternate solutions.

[Box, p 20]

Jiri Nesnidal: Is There a Gap in the Law?

Recently, there has been a decline in the number of voices calling into doubt the rights of real owners of shares—individuals who had acquired these securities by purchasing them for other securities (investment coupons) within the framework of coupon privatization to avail themselves of their stockholder rights and to share in making decisions regarding the distribution of profit. The new owners had purchased their securities by the end of last year. Since that time, the law truly considers them to be owners of securities (stockholders), something that relates to their rights as partners to share

in accordance with the Commercial Code and the statutes of the appropriate corporations in their management, including sharing in the approval of the annual balance sheet, in the decisionmaking involved in distributing profit, and in stipulating the size of director bonuses. It already looked like there was nothing to stop these real owners of shares to avail themselves of their rights and to attend the general assemblies of "their" corporations.

However, shortly thereafter, it has turned out that the law on securities—in other words, the law whose absence was one of the reasons for deferring the actual transfer of shares from the Fund of National Property to new stockholders—is to be amended. The reason, as stated by the proposer of the amendment, T. Jezek, a deputy and chairman of the Fund of National Property, is to permit the transformation of securities (shares) from their nominal paper value to book value.

From the law on securities, it is clear that a nominal security—in our case, a stock certificate—can be replaced by an entry in the legally stipulated record of securities, an act on the basis of which it becomes a registered security (a registered stock certificate). This record is a record kept by the Center for Securities.

Section 5, Paragraph 3 of the cited law states that, if stock certificates are to be issued in registered form, the founders have the duty of notifying the Center of Securities of this fact. I dare to express doubt that corporations that have come into being on the basis of the coupon method have actually issued stock certificates in paper form. That being the case, there is no need to have them subjected to Section 9, which speaks of transforming paper securities into registered securities and vice versa. In a given case, this would not be a "transformation" (Section 9) but a case of "issuing" (Section 5).

This approach is also attested to by the provisions of Section 58, Paragraph 1, Section 60, Paragraph 1, and, mainly, Section 93, Paragraph 1, according to which stock certificates that are acquired through the use of investment coupons must be turned over to their acquirers in the form of registered securities. If the above argumentation is not suitable for any reason (?), it is appropriate to ask the question: How is it possible that the law that became effective on 1 January 1993 did not provide clear rules permitting stockholders, who became such on the basis of coupon privatization, to avail themselves of their legally acquired ownership rights?

* Stock Market Operations, Membership Viewed

93CH0440B Prague *EKONOM* in Czech 18-24 Feb 93
p 28

[Article by Jaroslav Klapal, chairman of the Stock Exchange Committee for Membership Issues: "Who May Be a Member—How the Stock Exchange Will Function—Part I"]

[Text] *The Prague Stock Market Corporation (BCPP) was established on the basis of a partnership agreement concluded on 24 July 1992 by 12 Czechoslovak monetary institutions and five brokerage firms. The establishment of the stock market was originally timed in the program of the economic reform for the fall of 1990. However, it turned out that the road toward the preparation and establishment of the stock market and the initiation of its operations is substantially more complicated, and conditions for the functioning of the market are forming at a pace that can be accelerated only with difficulty. The securities market, of itself, cannot define the financial market or even its initiation. However, it is an inseparable component of it and, as a result of the level of its preparedness, has an express influence on the moment at which the financial market will begin functioning to its full extent.*

Only a private individual or a legal entity authorized to trade in securities may be a member of the Stock Exchange. Previously, an applicant could acquire this authorization only from the Czechoslovak State Bank on the basis of Law No. 158/1990 Collection of Laws [Sb.], the effectiveness of which terminated on 31 January 1992. Additional authorized entities permitted to trade in securities are investment corporations that are authorized to trade according to the law on investment corporations, but those are authorized to make trades only within the framework of their portfolios. The securities law stipulates that the validity of the authorization to trade (which had been previously issued) expires if the respective entities do not apply for a new permit by 31 January 1993. (This does not apply to banks.) Currently, applications for authorization to trade securities are handled, as of 1 January 1993, by the Ministry of Finance. Membership in the Stock Exchange is decided on by the Stock Exchange Chamber, upon the proposal of the Stock Exchange Committee for Membership Issues (hereinafter referred to as the "committee").

An additional condition is that the object of the activities of an applicant for membership on the Stock Exchange must be particularly trading in securities, the brokering of new issues of securities and concomitant services, the conduct of activities connected with the safekeeping and administration of securities, the provision of advisory and consultative activities in the area of securities, and in business financing.

Applicants for membership on the Stock Exchange, whose activities are to involve trading for someone else's account, must prove the existence of capitalization, including a reserve fund or, possibly, a risk fund, at a minimum level of 200,000 korunas [Kc]. Those who base their trading activities on trading for other accounts as well as for their own account must be able to demonstrate basic capitalization, including a reserve fund and, possibly, a risk fund, at a minimum level of Kc10 million.

Application for Membership

An applicant for Stock Exchange membership shall submit an application for membership to the Stock Exchange Chamber. The application must contain the following:

- The name and trading name of the applicant, the legal form of the business, the ICO [expansion unknown], and the year of establishment.
- The seat and address of the applicant.
- The name of the statutory representative and his address.
- The object of activities and an extract from the Commercial Register.
- Approval for trading in securities, as issued by the appropriate organ.
- Data pertaining to the applicant's management activities for the past year. A new corporation or a private individual shall submit a business intention plan, including an economic balance sheet.
- Data pertaining to the possible participation of foreign capital in the applicant's business, including basic information on the applicant's foreign partner.
- Data on the applicant's capital participation in other business entities, provided this participation exceeds 10 percent of the basic capitalization of those corporations.
- Substantive and organizational prerequisites, including demonstration of the ability to maintain separate records of management having to do with trading in securities, the number of employees of the corporation, and the names of brokers, together with proof of their specialized suitability.
- Measures that could prevent a conflict of interest.

In making its decision on membership in the Stock Exchange, the Stock Exchange Chamber shall, upon the proposal of the committee, establish the size of a deposit and its form, in accordance with regulations promulgated by the chamber.

It was and is necessary to judge the question of principal activity in a demanding manner, but sensibly. Particularly with respect to nonbank entities, the problem of activities not connected with the trading of securities is sensitive. In such cases, it is difficult to make the uncompromising demand that these entities, particularly at the present time, not engage in other activities. This is a question of their continued existence in economic terms. However, it is necessary to judge (and this was and is also the job of the committee) the extent to which the other unconnected activities are transitory and compatible with the principal activities of a securities trader.

In judging applications for membership, the committee further examined the capital interconnection among applicants. What is at stake is that membership should not be granted to several legal entities from one financial group and, thus, prevention of the unnecessary occupation of seats on the "floor" of the BCPP, the number of

which is technically limited to approximately 60. However, a certain capital interconnection cannot be excluded; a limit of 10 percent was adopted as being "sensible."

This method was used by the committee for membership questions to recommend membership for 23 applicants—and the Stock Exchange Chamber approved such membership as of 22 December 1992.

The 17-member "family" of current stockholders and members of the BCPP includes the Czechoslovak Commercial Bank; the Investment Bank; the General Credit Bank; the Czech Savings Institution; the Postal Bank; the Bank of Bohemia; Ekoagrobanka; Agrobanka Praha; the Bank of Commerce; Zivnostenska Banka; Interbanka; Creditanstalt Securities; Credit Suisse First Boston; the Crown Banking Corporation; Efekta, Limited; Eastbrokers; and Agrobanka Olomouc. This group has been joined by additional members (ABN Amro Holding BV, Prague; Capital Market Consulting, Limited, Prague; Citibank, Prague; the Consus Cooperative; Czech Bank, Prague; Czech-Moravian Guarantee and Development Bank, Prague; the Fund of National Property, Prague; the Harvard Stock Exchange Corporation, Prague; imAGe 1, Prague; the Investment and Development Bank, Bratislava; Capital and Investment Corporation of the Czech Insurance Institute, Prague; Komero, Limited, Prague; Merx, Limited, Prague; Motoinvest, Cheb;

Raxer, Limited, Prague; Rentia, Brno; the Slovak State Savings Institution, s.p.u. [expansion unknown], Bratislava; Union Banka, Ostrava; the CS Fund, Prague; Investment Corporation Bohemia, Prague; Credit Bank, Plzen; Business Bank, Prague; and the Slovak Agricultural Bank, Bratislava).

The number of BCPP members has thus increased to 40. Of the total number of 70 applications, it is expected that another 10-15 applicants will be chosen. A reserve of five to 10 seats is being held against additional future applicants.

Stock Market Stockholders

Stockholder affairs are also connected with questions of membership. On 14 November 1992, the BCPP was recorded in the Commercial Register with basic capitalization of Kc5.3 million. An extraordinary general assembly, held on 30 November 1992, decided to increase this basic capitalization by Kc120 million; of this figure, Kc65 million were paid off through capitalization of a consortium credit provided by the founding banks; an additional Kc55 million is set aside for the purchase of new BCPP member shares. The extraordinary general assembly, when it was increasing the capitalization, stipulated that new members may acquire shares within the limits of Kc1-1.5 million.

*** SZDSZ Not Invited To Meet With Antall**

93CH0467B Budapest UJ MAGYARORSZAG in
Hungarian 2 Mar 93 p 4

[Unattributed report: "SZDSZ Talks"]

[Text] "The president of the SZDSZ [Alliance of Free Democrats] would gladly meet with Jozsef Antall, the president of the MDF [Hungarian Democratic Forum], but so far the president of the SZDSZ has not received an invitation from the prime minister," replied Ivan Peto yesterday to a question put to him by the MTI [HUNGARIAN NEWS AGENCY].

Peto added that the SZDSZ would be holding talks also this week on the 15 points that sum up the tasks to be carried out before the next elections, and on cooperation. Today the SZDSZ will be meeting with representatives of the Democratic League of Independent Trade Unions, and, at midweek, with the leaders of the Budapest Jewish congregation.

But FIDESZ [Federation of Young Democrats] has been the source of the information that Viktor Orban, the leader of the FIDESZ caucus, and Gabor Kuncze, his SZDSZ counterpart, will be meeting this morning. Viktor Orban will be briefing Kuncze on the former's meeting with Prime Minister Antall yesterday.

*** SZDSZ, Postcommunist Trade Unions Meet**

93CH0467C Budapest NEPSZABADSAG in Hungarian
27 Feb 93 p 1

[Article by Jozsef Bartha Szabo: "Common Problems Tend To Bring People Together; The Presidents of the MSZOSZ and of the SZDSZ Met"]

[Text] "Passage of the bill on electing councils to represent the interests of local governments, plants, and public employees made our talks especially timely. At the same time, our meeting faithfully reflected the openness of the MSZOSZ [National Federation of Hungarian Trade Unions] and its freedom from prejudice," MSZOSZ President Sandor Nagy told our reporter yesterday, after meeting with Ivan Peto, the president of the SZDSZ [Alliance of Free Democrats].

"We were in complete agreement about the validity of the elections to the councils," Sandor Nagy continued. "Irrespectively of the views expressed earlier, we felt that the success and validity of the elections were equally in the interest of every political party and every citizen. We established that what Deputy Ottilia Solt (SZDSZ) had said about the elections during the bill's parliamentary debate had been based on misinformation. We also agreed that talks would begin between experts of the SZDSZ and of the MSZOSZ on alleviating unemployment and society's pauperization."

Responding to the suggestion that the SZDSZ and MSZOSZ might seek to establish mutual contacts also on other topics, Sandor Nagy thought that was conceivable

without any further ado. In the hope of achieving improvements in the representation of interests, the MSZOSZ was willing to meet anytime, and not just with the SZDSZ.

"The MSZOSZ has already had official meetings, and is maintaining contacts, with every political party, except the Smallholders and FIDESZ [Federation of Young Democrats]," Sandor Nagy said. "The common problems and worries—society's pauperization, unemployment, and I could go on and on—and the need to search for solutions and find a way out tend to bring us together, despite differences in our standpoints."

*** SZDSZ, FIDESZ To Coordinate Stance on Laws**

93CH0466D Budapest UJ MAGYARORSZAG in
Hungarian 3 Mar 93 p 4

[Unattributed article: "Orban-Kuncze Meeting; Liberals Coordinate Positions"]

[Text] The faction leaders of the Alliance of Free Democrats [SZDSZ] and the Association of Young Democrats [FIDESZ] came to an agreement that they will coordinate their positions in the near future on four bills (on Hungarian citizenship, frequency management, police, and minorities). This is what the issue was yesterday at a meeting between Gabor Kuncze (SZDSZ) and Viktor Orban (FIDESZ). Viktor Orban informed his Free Democrat colleague also about the contents of a discussion Monday [1 March] with Prime Minister Jozsef Antall, president of the Hungarian Democratic Forum [MDF].

According to Gabor Kuncze, when talking about his discussion with the prime minister, Viktor Orban mentioned that FIDESZ considers passage of these bills, for which two-thirds majority is necessary, important, and for this reason the Young Democrats promised to be constructive.

In connection with this morning's discussion with Viktor Orban, Gabor Kuncze, faction leader of SZDSZ, told our reporter that the meeting between the two liberal parties did not take place because of the Orban-Antall meeting, but rather based on an agreement last week between the SZDSZ and FIDESZ. Incidentally, coordinating meetings take place between the two parties every three months.

"In spite of this, the meeting between the faction leader of FIDESZ and the prime minister rhymed with the discussion between the two liberal parties," Gabor Kuncze continued. "We decided which were the important laws concerning which we will coordinate our position in the near future. These are: the bills on Hungarian citizenship, frequency management, minorities, and the police. Incidentally, the SZDSZ also regards it important that the bills for which two-thirds majority is necessary

be passed, and so, similarly to FIDESZ, we also intend to have a constructive attitude concerning these issues. At the same time, we expect the same from the coalition parties, as well. Thus, we will attempt to reach an agreement, and wherever the issues are too doubtful, we think both parties must yield some of their positions."

*** Government Paper on FIDESZ-SZDSZ Agreement**

93CH0431C Budapest UJ MAGYARORSZAG in Hungarian 25 Feb 93 pp 1, 4

[Unattributed article: "FIDESZ-SZDSZ Engagement"]

[Text] Yesterday afternoon, smiling party and faction leaders of FIDESZ [Federation of Young Democrats] and SZDSZ [Alliance of Free Democrats] publicly announced that upon concluding their talks they had signed an agreement of cooperation in order to ensure victory in 1994. The host of the talks, SZDSZ chairman Ivan Peto, outlined the key features of the pact. It was learned that the two liberal parties have hammered out a joint strategy for reaching out to the other players on the political scene. "We are convinced that it will take a liberal-center democratic coalition allied with forces both to the left and to the right of us, who espouse the basic principles of democracy, to fulfill the historic mission of strengthening democracy in Hungary," states the joint declaration.

It was agreed that the party chairmen and faction leaders would henceforth meet once a month to consult with one another about timely issues. The campaign chiefs of the two parties will come up with a workable framework for cooperation in the elections, and will establish a goodwill committee. On two-thirds majority legislation and other crucially important draft proposals put before parliament they will coordinate their positions in advance. They will call on the members of their local organizations and representatives in local governments to seek cooperation in the spirit of the agreement.

The two parties have also pledged not to enter into arrangements of comprehensive electoral or political cooperation with a third party before giving the other timely notification in advance of its intentions and without apprising it of the content of the agreement. The agreement was signed by Janos Ader, Viktor Orban, and Laszlo Kover on behalf of FIDESZ, and by Ivan Peto, Gabor Kuncze, and Marton Tardos representing SZDSZ.

The question was raised by the reporters about how the reservations expressed by FIDESZ earlier concerning the rapprochement in the past few weeks between the free democrats and the socialists have been resolved. In his response, Viktor Orban made it categorically clear that they did not wish to comment for the public about past statements. He insisted that the two parties intended to preserve their unique profiles and strategies even after the agreement. He considered it important to point out that since the free elections of 1990, this was the first

such interparty agreement in Hungarian political life. "Two well-positioned parties can afford to enter into this kind of an agreement," added Ivan Peto.

SZDSZ faction leader Gabor Kuncze also pointed out that there had always been coordination between the two factions, and that the agreement merely institutionalized that arrangement. In connection with this issue, FIDESZ steering committee chairman Janos Ader also listed a whole array of laws still to be adopted on which they needed to consult, the most urgent one being the draft proposal concerning Hungarian citizenship. Orban considered it important to subject the SZDSZ's 15-point proposal to closer scrutiny, for he thought it required additional coordination.

*** FIDESZ Supports Government's Pension Proposal**

93CH0466E Budapest UJ MAGYARORSZAG in Hungarian 3 Mar 93 p 4

[Unattributed interview with Gabor Fodor, National Assembly representative of the Alliance of Young Democrats; place and date not given: "Gabor Fodor on Raising Pensions"]

[Text] [UJ MAGYARORSZAG] "In agreement with the government, FIDESZ voted for a 14-percent raise in pensions instead of 16 percent. With this step, the party which so far has been very popular among retired people caused great indignation. What do you think of this affront to prestige?" we asked Gabor Fodor, National Assembly representative.

[Fodor] No one should think that those who sit here in parliament—and who occasionally make decisions that are unfavorable to a lot of people for which they are angry—are not people, and do not try to help those who are in a difficult position by all available means. This is especially true for FIDESZ, because we did not forget the election where we had a lot to thank retired people for. We all have acquaintances and relatives among senior citizens; let us only think of our parents. Thus, from this peculiar situation in our lives we can sympathize with their worries. Having said that, our decision was justified by the following: We would be happy to give them even 20 percent if there were funds. It is easy to say that we should give more, but the budget is simply poor. We all know what a difficult situation our country is in, how great our internal deficit is, and then I haven't even talked about the heritage of the previous regime. We must acknowledge that this causes a very difficult situation. The point is simply that whichever finger we bite, it will hurt. This is why we made this decision. We also had a proposal to raise the lowest pensions to an acceptable level, over and above the general 14-percent raise, but parliament didn't vote for that. And finally, a personal note: My parents are also retired, and live on a very modest pension.

*** Antall, Orban Discuss Expediting Legislation**

93CH0467A Budapest NEPSZABADSAG in Hungarian
2 Mar 93 p 1

[Unattributed report: "Antall-Orban Meeting"]

[Text] On Monday [1 March], Prime Minister Jozsef Antall received in his office Deputy Viktor Orban, the leader of the FIDESZ [Federation of Young Democrats] caucus in the National Assembly. The MTI [HUNGARIAN NEWS AGENCY] reported that the main topic of discussion was the acceleration of legislative work, including questions pertaining to the enactment of laws requiring a two-thirds vote for passage.

Speaking to our reporter about the meeting afterwards, Orban said that the meeting was long overdue; it had been delayed first by the prime minister's influenza, and then by the reshuffling of the cabinet. The sole purpose of their discussion was to ensure that the approaching elections do not paralyze parliament's work. Therefore the leader of the FIDESZ caucus expressed his willingness to allow the enactment of as many laws as possible before the government's mandate expires.

Orban cannot be accused of by-passing the SZDSZ [Alliance of Free Democrats], because Tuesday morning he will be discussing these same questions with Gabor Kuncze, the leader of the SZDSZ caucus.

Orban also revealed that during their meeting Antall said that he regarded as essential the passage of important legislative bills, regardless of what the outcome of the 1994 elections would be. Such bills are the ones on the police, national defense, and nationalities respectively, and also the National Assembly's new rules of procedure, no matter who would reap the benefits of these pieces of legislation after 1994, Viktor Orban said.

*** Populists Discuss Goals, Principles**

93CH0466A Budapest NEPSZABADSAG in Hungarian
1 Mar 93 pp 1, 4

[Unattributed article: "Reckoning in Kisujszallas; National Politics Without Extremes"]

[Text] It is all right if representatives of various political parties exchange their views on the 50th anniversary of the Balatonszarszo conference, but it is unfeasible to create the feeling through nostalgic and popular front speculations as if one would need a cooperation above the parties instead of a multiparty parliamentary democracy. This is how Prime Minister Jozsef Antall's videotaped message to the weekend conference can be summarized, which was sent to Kisujszallas, where participants pondered the chances of populist politics for two days.

It is a fact that the preparation of the conference was accompanied by prejudices, misunderstandings, and misinterpretations. The Great Plains Program, the Homeland and Progress Foundation, the Lakitelek

Foundation, the Hungarian Watchtower Foundation, and the Society for the Promotion of Hungarian Intellect intended the present conference in Kisujszallas as a follow-up to Reckoning '91, an open forum held in November 1991 in Hortobagy.

Endorsing the inheritance of the 1943 meeting in Balatonszarszo, the conference was announced neither as a party function nor as the initiation of a new movement. Almost 100 participants were invited, among them 18 representatives from the Hungarian Democratic Forum [MDF], five from the Hungarian Socialist Party [MSZP], four independent representatives, and one each from the Smallholders Party and the Christian Democratic People's Party [KDNP], most of whom were present at the conference.

Contrary to the exaggerated expectations, this conference did not become a stumblingblock in spite of the fact that speakers like Istvan Csurka, Matyas Szuros, and Imre Pozsgay took turns at the microphone. At the same time, the eight lectures and approximately 30 remarks that filled the two days challenged the prime minister's videotaped opinion in a very low-key fashion, but unanimously—with one or two exceptions. Among the challengers was Sandor Puski, the one-time organizer of the Balatonszarszo conference.

From the lectures it became indubitably apparent that the people present in Kisujszallas agree in one thing: Organic growth and development in Hungary can only be imagined through populist politics. Imre Pozsgay expressed it in this way, adding that in Central Europe one ought to replace the current pushing and shoving and stepping on each other by the integration into Europe through the revival of populist diplomacy.

Among the speakers, literary historian Zoltan Bertha emphasized that the production of quality, turning power into service, and an intelligentsia that is on the side of the people are necessary to give an adequate answer to inhuman free competition on the one hand, and forceful equalizing on the other. Istvan Csurka asserted that while earlier the people were "handled" by force, and later by letting them eat their fill, in the current postcommunist regime they are being "handled" by neutralization through mass culture, lest grass roots movements shake the power of the minority who only use the people as a pretext.

Lajos Fur, outlining the historical variety of populist politics, emphasized that since we lived through the horrors of populist politics slipping into right-wing or left-wing extremes, we can no longer have illusions that would leave room for either one. In his analysis, Konrad Salamon showed that actually a discussion between two kinds of modernizing trends is taking place in our days; one of them formulated the program of development on national principles.

Retired engineer Istvan Somody—who participated in the Balatonszarszo conference already—pointed out that at a time when the official power is unable to act, the

guardians of Balatonszarszo's spirit must gather and show the way out with their analysis of the situation. Next to taking responsibility for the nation, Matyas Szuros considered the revival of the reconciliatory atmosphere of the national roundtable, the Hungarian-Hungarian dialogue, indispensable, with the concurrent banning of extremism and condemnation of unbridled liberalism. And composer Sandor Szokolay concluded by saying that one must not say Bartok or Kodaly, popular or urban, Hungarian or European, Antall or Csurka; rather, one should replace the "or" everywhere by "and."

These thoughts were rounded out by a great number of speakers offering remarks, independent of party affiliation. Only independent representative Agnes Maczo G. Nagy used a sharper tone when she said it was typical that from the government, which calls itself national, numerous ministers led by the prime minister "paid a visit" to the liberal conference in Miskolc, but not to the conference in Kisujszallas.

At the press conference held in the intermission of the conference, the organizers told our correspondent from the county that they did not send out invitations according to parties; supposedly, the Alliance of Free Democrats [SZDSZ] and the Association of Young Democrats [FIDESZ] did not want to participate in the conference. The capacity of the city hall's auditorium is limited, and so they decided not to invite Zoltan Biro. To another question, Istvan Csurka, Imre Pozsgay, and Matyas Szuros unanimously stressed that populist politics is not an illusion: It always had, has, and will have a chance and a role.

In one of the intermissions during the conference, several participants reacted to a statement by Alajos Dornbach, assistant speaker of parliament, SZDSZ member, who said that "followers of state-party methods met in Kisujszallas under national slogans." Pozsgay called this statement prejudicial; Szuros called it premature, while Lajos Fur strongly objected to it. Csurka said: "I excuse Dornbach, because someone who is afraid is bound to say something silly."

In connection with the above, we asked Alajos Dornbach, assistant speaker of parliament, for his opinion. Dornbach said that he wanted to use this opportunity to express his position in somewhat greater detail.

"I called it a great pity, and still consider it to be a great pity, that representatives, even from the MSZP, by appearing together with Istvan Csurka, might create the impression of identifying with Istvan Csurka's ideology in which, as we know from his notorious essay, methods of the party state are discernible. The acceptance of violence and the opposition to the system of democratic institutions are such elements of Csurka's ideology. Thus, appearing together with Csurka and not opposing

his ideology at the same time is a ground for apprehension. The fact that in many issues Csurka expresses real problems cannot be an excuse for this.

"As far as the remark is concerned that I am driven by fear of Csurka, let me only say that I was always opposed to the hysteria connected to his person. As long as he is in last place on the popularity list of politicians, there is no reason to fear him."

* National Assembly Debates New Citizenship Law

93CH0466C Budapest UJ MAGYARORSZAG in Hungarian 3 Mar 93 p 4

[Unattributed article: "Report From Parliament; No One Can Be Stripped of His Citizenship"]

[Text] Yesterday morning, the National Assembly started the 10th workday of its spring session. Before the commencement of legislative work, the representatives listened to addresses before the agenda.

Endre Bilecz, a former Free Democrat, later independent representative, announced that because Monday morning the group of representatives of the Hungarian Democratic Forum [MDF] voted in support of his intention to move, in the future he will take a seat in the rows of the largest coalition party. Speaker of the House Gyorgy Szabad informed the representatives that at its Monday meeting, the faction of the 36 elected Istvan Borocz as their leader.

The general discussion on the bill concerning Hungarian citizenship began with a statement by Fabian Jozsa, under secretary of the Ministry of the Interior. The speaker stated that the 1957 regulation has become obsolete. According to his argument, since that time Hungary has changed from a country that let masses leave and even banished people, into a receiving country. It is also necessary to regulate the relation of Hungarians living abroad and the Hungarian minorities living beyond the borders with the homeland. In order to preserve the moral weight of citizenship, the bill intends to toughen the prerequisites for naturalization. Thus, in order to be naturalized, eight years' stay in Hungary instead of three, a clean record, and a successful examination in Hungarian on the fundamentals of the Constitution are required.

However, those who have lived in Hungary already for three years, are married to Hungarian citizens, or have been recognized as refugees by the Hungarian authorities will be given preferential treatment. Applications for repatriation of individuals who used to live in Hungary and whose Hungarian citizenship ceased, and by non-Hungarian citizens of Hungarian nationality whose ancestors were Hungarian citizens, will be given preferential treatment. Beyond the general criteria, the prerequisite for repatriation would be merely the acquisition of a residence in Hungary. The under secretary commended the fact that the bill intends to cancel stripping

individuals of their citizenship, and to introduce, as a new legal category, the revoking of citizenship.

He also said that through a constitutional amendment they wish to enable the interior minister to take action in certain issues in connection with citizenship without the president's involvement.

In the general discussion of the bill, the speakers of the factions agreed that new regulation is necessary, and they accepted the proposed restrictions and preferences. The speakers of the Free Democrats and the Young Democrats supported the bill in spite of its shortcomings. However, the socialists announced that they intended to submit numerous modification proposals. The presiding Matyas Szuros postponed the general discussion of the proposal.

In the discussion of the parliamentary draft proposal on the defense doctrine, every speaker praised the preliminary consensus of the six parliamentary parties on the proposal. At the same time, Antal Gaal (MDF) pointed out that politicians must not underestimate the importance of defense, because the country indeed needs an army. Analyzing the new, multipolar defense system, Jeno Racskay (SZDSZ) stated that the plan under discussion is in accordance with the demands of a modern defense policy.

According to the plans, in the early evening hours, Foreign Minister Geza Jeszenszky will reply to the addresses in the discussion of the draft proposal, and, following his speech, parliament will vote on the doctrine.

(As we go to press, the work of parliament continues.)

* Mayors View Structure of County Government

93CH0477A Budapest FIGYELO in Hungarian 4 Mar 93 p 27

[Article by Zoltan Agg: "Public Opinion Poll; Mayors About the Counties"]

[Text] *Contrary to expectations, an opinion poll conducted last year among the mayors of municipalities confirmed the necessity of counties.*

More than two-thirds of the mayors who replied considered county self-governments necessary. On the other hand, the proportion of those who oppose them does not even amount to one-fifth. As much as one-half of the mayors whose municipalities do not have representation in the counties' self-governments and who do not deem this representation necessary even in the future are in favor of counties.

The strongest supporters of county self-governments were among the mayors of municipalities that were former council seats (almost three-fourths of them replied "yes"). The most unsure were the answers of

hitherto merged municipalities, where the proportion of "yes" did not reach 60 percent, while nearly one-fifth said "no."

The proportion of those in favor of counties reached at least 50 percent in every county. The lowest proportion can be found in Nograd and Pest counties, while the highest—over 80 percent—in Hajdu-Bihar and Abauj-Zemplen counties.

The real watershed is the opinion about the participation of county self-governments in the distribution of funds. The most extensive opposition to the earlier exaggerated power of county councils appeared in the distribution or redistribution of moneys. For this reason, in the course of the development of the professional draft of the self-government bill, the necessity of the function of money distribution was formulated cautiously, and the parties in parliament were almost unanimous in their opinion that the counties must not be invested with any financial power. It is surprising that in every category of municipality the majority of those who replied—with the exception of city mayors—would prefer some sort of an involvement by county self-governments. More than 56 percent of former county seats and 54 percent of incorporated municipalities prefer the involvement of counties, while in the case of towns which were not county seats, this proportion is only 30 percent. (More than 50 percent of cities do not want interference by the counties.) Thus, it seems that with the improved status of municipalities, their ability to assert their claims increases, and they require the county's help to a lesser degree.

The major argument by those who prefer county involvement is connected with professional training and extra information resulting from regional experiences. Several mayors attribute this to harmonizing, the coordination of regional ideas. At the same time, more than 10 percent of those who gave a positive reply would involve the county self-government exclusively in the preparatory phase of the decisionmaking process, strictly stipulating that the moneys should not be distributed by it. In some cases, a positive assessment of distribution by the county is an expression of criticism towards central distribution (by parliament, the Interior Ministry, and so forth).

Aversion towards the county is formulated more sharply in connection with this question. Mentions of the past are frequent. For instance, "it would distribute the moneys in a despotic fashion, just like the county council did"; "enough of the county's bulldozer politics." They also challenge the possibility of just distribution. (Nepotism would reign.) Some mayors explain this with the inequality of the system of county representation, and are apprehensive of the favored status of the county seat and certain regions of overriding importance.

The system of arguments contained in the textual additions by those mayors who "voted" in favor of the necessity of county self-governments is less opulent.

Because of the rational organization of public administration, nearly one-fourth of those who replied "yes" consider it evident that "an intermediate level is necessary," and that this level must be the county self-government.

The current law on self-governments does not stipulate unequivocally the types of district and regional institutions, the maintenance and development of which is the task of county self-governments. On the level of county self-governments, the mayors can envisage primarily special county institutions: archives, educational institutes, protection of children and youth, schools for the handicapped, and nursing homes. Beyond this, hospitals, and to a lesser degree theaters, could belong to the level of county self-governments. In case of secondary education, special education, or music schools, the majority supports placing them under the authority of city self-governments.

Of the institutions which currently belong to the county, the mayors would most often take over the high school or the vocational secondary school, with the remark that "the difficulty is that the allocated norm is not enough to operate the institutions for a year."

Not quite one-fifth of those who replied deny the necessity of a county self-government. A portion of them used the same arguments as those in favor of the counties, only with the opposite value judgment.

One-fifth of those who regard the county as unnecessary endorse a different solution: the city self-government can carry out the same tasks, the office of the agent of the republic [KMB] is in operation, moreover, "their functions could be carried out by the county seats." Some ask a rhetorical question: "The KMB office and the county self-government occasionally overlap; which one is superfluous?"

[Box, p 27]

500 Replies

Commissioned by the National Association of County Self-Governments, in the summer of 1992, the Comitatus Research Group conducted a national opinion poll among all the mayors of municipalities. Of the 3,200 questionnaires sent out by mail, more than 500 came back.

* Szeged 'Scandal': Romanian Newborns 'Disappear'

93CH0467E Budapest UJ MAGYARORSZAG in Hungarian 27 Feb 93 p 5

[Article by (csarnai): "Young Unwed Mothers and Their Babies Disappeared"]

[Text] Investigation in the case of the young Romanian unwed mothers who gave birth in Szeged is continuing since the end of November, but the Ministry of Social Welfare has received accurate information about the

case just recently. This is what Bela Bene, the head of the ministry's Main Department of Family, Child, and Youth Policy, told our reporter yesterday. He added that the Prosecutor General's Office had already sent the files over to the ministry, where they had been studied thoroughly.

Various rumors have been spreading in conjunction with this scandal. There is talk of international trafficking in babies, of smuggling people across borders, and of selling the newborns to donors abroad. Allegedly the racket is being organized in Romania, and the final destination is the United States. The fact is that, since last November, conspicuously many unwed expectant mothers arrived from Romania to give birth in Szeged, and subsequently they all departed to the same address, where a man, a certain Zoltan Pordi, awaited them. He manages the Szeged office of the Adam Children Foundation, which is American. The foundation allegedly promised the mostly mentally retarded and poor unwed mothers that their babies would be adopted by rich U.S. families. The mothers who gave up their babies for adoption were given some money in exchange. It is assumed that last year 17 Romanian babies were placed with foster parents without the welfare agency's knowledge, but very little is known about what happened to the babies thereafter. They are probably in the United States, in Europe, or perhaps still in Hungary.

In conjunction with this complicated affair, Bela Bene told us that the unwed mothers as well as Zoltan Pordi have disappeared. The ministry does not know exactly how many such newborns are involved, and it is conceivable that similar cases have occurred not just in Szeged but in other places as well. Officials of the ministry will be going to Szeged on Monday to obtain more thorough, first-hand information about the case. They will be consulting with the hospitals on how to screen out such cases in the future.

Although welfare workers monitor the progress of newborn babies, the situation of such workers is difficult. The mothers do not admit them into their homes, and therefore the welfare workers are unable to help. That is what happened in Szeged also in this case. And that is why the foreign unwed mothers and their babies have been able to disappear.

* TV Series on Ethnic Groups in Carpathian Basin

93CH0467D Budapest NEPSZABADSAG in Hungarian 6 Mar 93 p 3

[Unattributed article: "Coexistence in the Carpathian Basin"]

[Text] On Monday, the ethnic editorial office of TV2 will begin production of a 13-episode series entitled "Coexisting Peoples in the Carpathian Basin," scheduled for broadcasting in September. The purpose of the program, which is based on the idea of Kalman Benda and Geza Entz, is to point out in Hungarian-centric historiography

the centuries-old presence and role of nationalities in the Carpathian Basin and in pre-World War I Hungary, respectively. Lectures by prominent experts on the subject will be held and filmed on 8 March in the Kossuth Club in Budapest.

*** Szabo Seen Weighing Czech Privatization Method**

93CH0433A Prague EKONOM in Czech 18-24 Feb 93
pp 43-44

[Article by Ludek Urban: "The Zig-Zag Process of Hungarian Privatization"]

[Text] We could aggregate the specific characteristics of the Hungarian approach to privatization as follows:

- A high degree of participation of foreign entities in the privatization process.
- An active role in this process entrusted to directors and the managements of state enterprises.
- The absence of the coupon method of privatization or of other forms of direct distribution applicable to state property (thus far).
- Compensation for former owners not in the form of payments in kind but by means of offering them securities in privatized enterprises.
- The utilization of the proceeds from the sale of state property to amortize state debt or, possibly, to satisfy other domestic needs.
- The advantaged sale of securities to employees and managers of state enterprises.

Overall, it can be said that the Hungarian approach to privatization is characterized by a high dose of pragmatism, which clearly accounts for its share in the zig-zag turns of this road.

The Complicated Search for a Successful Approach

In contrast to the former Czechoslovakia, the private sector in Hungary was able to experience some development in industry already prior to 1989. This was assisted by a 1988 law that made it possible to transform state enterprises into corporations, even including participation by foreign investors. It is therefore not surprising that, by the end of 1991, Hungary had approximately 5,600 joint ventures with participation by foreign partners. In addition, during that time, Hungary already had more than 45,000 firms that were fully or partially in private hands. In the beginning period (until the spring of 1990), therefore, the privatization of state property was essentially proceeding without state control. Public indignation over an approach in which management divided an enterprise into several smaller components, retaining the securities of the more profitable ones and possibly offering them to other enterprises and leaving the administration of money-losing components to the state, forced a retreat from this uncontrolled development.

The State Property Office, which was established in the spring of 1990, was charged with managing the entire process centrally. In pursuit of this purpose, it took over a large portion of the state enterprises, the privatization of which was to be prepared. The office attempted to identify a circle of enterprises from above that might be of interest to foreign partners. In the fall of 1990, a list of 20 of the most important and most profitable firms was drawn up, firms that were offered for this kind of sale. Eighteen months later, in the spring of 1992, this program were officially designated a failure. Public criticism of the protracted and inflexible approach forced the State Property Office to make the decision to speed up privatization.

This time the initiators were to be the investors themselves, who, as a general rule, were foreigners who were permitted to initiate proceedings without the approval of the enterprise management involved. The interested party only had the duty to report to the State Property Office the intention to purchase state property or a portion of state property. It was the task of the office to arrange for the approval of the appropriate ministry, the enterprise management, and the local organs. This time, many more foreign interests were heard from.

In the spring of 1991, the State Property Office announced a new (a so-called second) privatization program. Enterprises that had already previously, during the period of uncontrolled privatization, transformed themselves into state corporations were to be sold. Again without much success. It again turned out that, as soon as the State Property Office began to be directly involved in the process, the desired results did not come about. By the end of 1991, a new turnaround was accomplished in privatization strategy, which could be characterized as an effort to decentralize the privatization process. The first round of what came to be called self-privatization was initiated and involved more than 400 firms. This time, it was again permitted for the enterprise management to directly enter negotiations with the potential acquirer (this involved enterprises employing fewer than 300 individuals and having capital of less than 3.8 million Hungarian forints [Ft]), without direct supervision by the State Property Office. Directors of enterprises and their managements were required to ask for specialized assistance from one or another of the consultation firms approved by the office (there are more than 80 of these). Moreover, the State Property Office undertakes to check on the activities of these consulting firms from time to time.

The above approach turned out to be far more successful and is now considered to be promising. In the course of approximately three months, some 266 enterprises of the original 404 state firms were sold. This made it possible to announce a second round of this "spontaneous" privatization in April 1992. It was intended that 300 enterprises would participate and that they would be larger (employing up to 1,000 individuals) and would be better capitalized (capital of up to Ft12.7 million).

The Positives and Negatives of Hungarian Privatization

After more than three years, Hungary can record a number of positive developments with regard to its privatization results. They include, primarily, the fact that the question of compensation to former owners has been solved. Their claims will be satisfied basically through the form of certificates entitling them to buy property that, for the time being, is under state or cooperative ownership. Therefore, nothing is to prevent the structural adaptation of enterprises that are oriented toward market requirements. Moreover, in contrast to the original estimates made by the Hungarian Government (up to Ft100 billion), the claims by former owners have shrunk to less than one-tenth.

In comparison with its neighbors, Hungary is more successful as a country that attracts foreign investors. In Hungary, a total of more than 11,000 enterprises having foreign capital participation are in operation, including more than 1,200 that are exclusively owned by a foreign partner. Direct investments by foreign firms were estimated in the middle of last year to be worth \$3.5 billion.

Large and profitable state enterprises have passed into the hands of foreign firms. Foreign firms focused on a priority basis on those enterprises that produce consumer goods and that have a sizable share in the domestic market, which foreign investors value more than any production capacity. In practical terms, they have taken over the production of cigarettes, spirits, beer, vegetable oil, sugar, confections, and baked goods.

The positives of Hungarian privatization also include the fact that it managed to come to terms with the excesses of the so-called spontaneous privatization.

The weaker points in the Hungarian strategy, as is also generally admitted in Hungary, include primarily the fact that the privatization of large enterprises proceeded and is proceeding at a very slow pace. According to official data, in the spring of 1992, 10 percent of all state property was privatized in Hungary, and an additional 30 percent is in the phase of ownership transformation. If the pace of this process can be successfully maintained, the volume of state property could, over two to three years, decline to less than one-half of the original status. However, let us recall that the original optimistic estimate of the Hungarian Government predicted that, in 1994, the ownership transformation of one-half of all state property would be undertaken.

A great weakness is considered to be the small degree of participation by domestic entities in privatization changes. This can be seen from the fact that 80 to 90 percent of the proceeds from privatization, which are concentrated by the state, originates, for the time being, with foreign investors. The principal reason for the weak commitment of domestic entities in the privatization program is seen in the fact that, until recently, they enjoyed only a very low degree of credit support by Hungarian banks, which were offering capital at high interest rates.

A Turnaround in Hungarian Strategy?

Much points to the fact that, in a number of important points, the existing privatization strategy has been overvalued. This can be seen from the fact that, to a certain extent, the attitude toward foreign firms is changing, that the growth of a strong layer of domestic owners is beginning to be deliberately supported, that it was decided to support the participation of employees in the privatization of "their own enterprises," and, finally, that a change in attitude has been announced with respect to "mass" (coupon) privatization, which had formerly been rejected.

The predominance of Western capital owners in Hungarian privatization (of 10 of the largest Hungarian enterprises that were privatized in 1991, nine have become owned by Western firms) is viewed within the country with considerable contradiction. The fact that the country is experiencing an influx of foreign technology, experience in marketing, and, frequently, the "importation" of entire enterprise managements that know how to manage an enterprise under conditions of a demanding market environment is valued. This opinion, which is shared by many specialists, does not enjoy the unequivocal support of the Hungarian public, however.

A public opinion poll conducted in the spring of last year indicated that 39 percent of those polled supported the sale of state property to foreign firms; however, 34 percent was fundamentally opposed. This is a relatively important shift in attitudes compared with the previous period and signals the growth of a certain degree of dissatisfaction regarding the transfer of state property into the hands of foreign firms to this extent. It also reflects the recognition that foreign firms are privatizing the "plums" in Hungarian industry and that the state is left with less promising enterprises, in which there is little interest.

The above shift in the views of the Hungarian public obviously contributed to the fact that support for the establishment of a strong layer of domestic businessmen has now been designated as the long-term goal of ownership transformation. The government-announced privatization slogan reads as follows: "Of two equal privatization offers, the domestic one should receive preferential treatment." Support for domestic entities that intend to become involved in the privatization of state property is multifaceted: Private individuals can be fully relieved of taxation pertaining to their incomes as long as they use such income to purchase state property; moreover, citizens are granted advantageous loans for the purchase of securities, provided the purchase results in acquiring at least 50 percent of a privatized property.

Ownership transformation supporting a domestic middle class is also assisted by the fact that 7 percent of the proceeds of privatization will now be used as a credit resource to support additional privatization. Of this resource, 30 percent is to be used to create financial and guarantee institutions to support ownership changes.

In an effort to speed up privatization, the attitude regarding the role of employees of enterprises during their privatization has also changed. In June 1992, the Hungarian parliament approved a law that makes it possible for employees to share in the capital of their privatized enterprise. However, at least 25 percent of the work force must show interest in participating in the stock capital. In addition, the enterprise can assume the form of a corporation administered by its employees if at least 40 percent of the work force is willing to share in the stock capital. To cover property valued at up to Ft5 million, it is enough for employees to deposit only 2 percent of this amount in cash. For property worth more than this limit, the obligation to provide cash coverage increases to 15 to 20 percent of the value of the capital involved. For purposes of settling for the remainder, employees may acquire a 10-year loan, with a two-year deferral of payback and at an advantageous interest rate (only 67 percent of the market interest rate).

The State Property Office clearly intends to use this method to sell those enterprises that are not overly attractive. But it is highly likely that Hungarian privatization will not stop here. In the original Hungarian privatization strategy, the coupon method of privatization was rejected, particularly in view of the revenue requirements of the state budget. However, as the director of the Hungarian Privatization Office, Tamas Szabo, has announced, the Hungarian Government is considering adopting a program this year that would approach the Czechoslovak method of coupon privatization. Even if the details have thus far not been announced, this is a very important shift in an otherwise pragmatic Hungarian approach.

The above-mentioned changes in the Hungarian privatization strategy are being sharply monitored by Western investors. The British *FINANCIAL TIMES* last summer found that Hungary has thus far been a country in which foreign investors deposited their capital with the greatest willingness. The shift in attention from foreign investors to domestic entities could indicate that the Hungarian privatization strategy is beginning to take the requirements of overall economic and social stability of the country into account to a greater extent than has been the case thus far. And the fact that even the coming parliamentary elections in 1994 are playing their role here cannot be excluded.

*** EC Call For Voluntary Steel-Export Restraint**
93CH0477B Budapest HETI VILAGGAZDASAG in Hungarian 27 Feb 93 pp 25-26

[Report by Gyorgy Foris: "The EC and Hungary; Now They Like Us, Now They Don't"]

[Text] Brussels—Eastern Europe is less and less important for the EC; at least, all signs point in this direction; even if it were not so, it is still true that Western Europe, struggling with a deepening recession, is preoccupied exclusively with internal problems.

Last week Martin Bangemann, the industrial commissioner of the EC, called upon the East European countries to voluntarily restrict their steel exports to the European Community. This request is distressing to the East European countries, among them Hungary, which itself delivers approximately 300,000 metric tons of steel products to the EC. Moreover, the proposal can be regarded as a "compromise," because the Western steel lobby, frightened by the ever-deepening crisis of the industry, wanted to bring administrative measures to make Eastern export impossible. As a reminder: The association agreement eliminates quotas in the steel trade, and doesn't prescribe price limits either; it only requires the removal of state subsidies.

In fact, Bangemann's plan is a very good manifestation of the constant reevaluation and labor pains in the relationship between the EC and the Visegrad countries. Namely, the vice president of the Brussels committee is a committed pioneer of European integration, and was always open to the idea of eventually including Central Europe into this process as well, but he is also familiar with the industrial and economic struggles of the 12. The former German economic minister tried to resolve the present contradiction between the two factors in such a way that seemingly it is not the EC that removes already granted trade reliefs, but—on the basis of solidarity—the Visegrad countries themselves temporarily give up a slice of the barely initiated process of mutual liberalization....

This is not the first sign that the EC's commitment to its East European partners is decreasing. Even while the association agreement was negotiated, the intention of opening which was actually offered was not always in proportion with the orally declared openness of EC politicians. Let us keep in mind that the Brussels committee had to ask the council of ministers twice for an extension of its mandate in order that the agreement be entered into on terms which were acceptable for the Visegrad countries, as well. At that time, it was possible to do so, but since then, backing out is more characteristic of Brussels. Just as recently, at a meeting of the Hungarian-EC joint commission when they rejected the possibility of opening the market any further, which, incidentally, the EC offered last year. Or, for instance, how the meeting which was announced last December as an "extraordinary EC conference" to be held in April in Copenhagen about Eastern Europe became eventually reduced to a private matter of the Danish Government in which the EC participated only as an "invited party."

Still, perhaps the most typical instance was the cool reaction of the December EC summit in Edinburgh to the proposal by the committee which for the first time suggested that the 12 formally adopt the Visegrad countries' intention to become members as a common goal. True enough, the heads of states and governments did not reject the entire proposal, but they returned it for "further consultation"; in other words, everyone should wait for his turn. Thus, the East European bride, including Hungary, lost some of her attraction—which

was not too great to begin with—precisely at a time when the marrying mood of the EC-bridegroom subsided, or when it would only be prepared to get married with the large dowry flaunted by the EFTA countries.

It would be cheap to throw the the usual accusation in EC politicians' face that as soon as the Soviet threat disappeared, they "dropped" Central Europe, as well. This would partially not even be true, because even in the highest echelons of Western politics, many people "lobby" for our region. (The genesis of the committee document submitted to the Edinburgh summit is a good example for this.) One of the most important reasons for the increasing preoccupation with themselves is that the EC is fraught with internal problems, independent of what they think of the eastern part of the continent.

By now—after the "no" to the Maastricht treaty in Denmark last year—the voice and influence of "Euro-skeptics" has increased all over Western Europe, and many people do not consider the ratification of the treaty by the British as an accomplished fact, either. If we consider, beyond the bogged down integration process which committee chairman Jacques Delors calls a temporary confidence crisis, that all of this is happening in the midst of a general recession of world economy, where the traditional "Japanese threat" is complemented by the announcement in Washington of punitive measures evoking the monster of trade wars, and where entire sectors of industry are in need of reconstruction, just like the steel industry, it is hardly surprising if the EC's attention is concentrated inward, rather than on Eastern Europe.

Moreover, the latter region has become the source of growing anxiety. Worries about politics and security—the fear that "Eastern squabbles," which on the Balkans have already escalated into war, would be allowed within the gates—are as much a part of this attitude as the fear of the fact that integrating more backward regions always comes with a high price tag.

However, all of this does not mean a complete limitation of the freedom of movement for Hungary. After all, the trade chapter of the association agreement has been in force, if only temporarily, for almost a year, and although in spite of the latest, umpteenth promise, the agreement itself will hardly be ratified by all 12 member countries by the spring, the political dialogue continues on various levels and between various institutions. According to Peter Gottfried, deputy director of the Hungarian branch office to the EC in Brussels, there is hardly a chance now for the EC to commit itself to the concrete time of admission, but it seems to be an attainable goal to make Hungary's membership a common purpose. Parallel to this, one could come to an agreement on certain mechanisms conducive to membership which, on the part of the EC, would mean the further opening of its markets, or the eligibility for some community funds. On the Hungarian side, on the other hand, one could undertake to conduct an economic policy in accordance with the future economic and

monetary union of the EC, the creation of convertibility, the accelerated acceptance of the community's market rules, and in general, the acceleration of legal harmonization.

[Box, p 25]

Steely Rescue Plans

The Brussels committee of the European Community developed a crisis plan to save the steel industry of the EC-member countries, which struggles with a considerable excess capacity and the competition of cheap imports. According to the plan, which was made public last week, in the next three years EC steel producers would have to reduce their capacity by 50 million metric tons, which would mean, according to certain calculations, the dismissal of up to 100,000 steel workers. In return for the sacrifice, the Brussels committee would contribute \$1 billion to the industry. On the import side, the committee proposes limitations on East European, thus also Hungarian, suppliers. The Brussels proposal contradicts earlier promises by the EC according to which East European steel producers can increase their market share in the countries of the Community, where currently hardly 3 percent of the entire steel consumption comes from former Comecon countries, the countries of the region protest. The involuntary diet elicited passionate criticism in the member countries of the EC, as well: In Dortmund, the stronghold of German steel industry where the crisis is the deepest, approximately 20,000 people participated in a torchlight procession last Friday.

* Trade With Independent Republics Viewed

93CH0478A Budapest FIGYELO in Hungarian 4 Mar 93 p 3

[Interview with Planetnetwork Manager Peter Benke by Janos Budai; place and date not given: "Trade With the Independent Republics; Misconceptions and Experience; They Buy What They Need, for Dollars, but Not at Hungarian Prices...."]

[Text] *After the spectacular 1990 collapse of the Eastern trade and the dissolution of the Soviet Union, Hungary's exports to the region decreased to a minimum. Most people think that it is impossible to trade with the successor states because they cannot pay, and we cannot barter because the other party cannot offer any goods in return. Peter Benke, manager of Planetnetwork, Ltd., recently visited the states of the Commonwealth of Independent States, and his personal experiences led him to think that there are many misconceptions in Hungary about trade with the independent republics.*

[Benke] I must begin by saying that I met exclusively private entrepreneurs in the independent republics. It is good to know that in the republics, enterprises with a right to conduct foreign trade are free to convert rubles into dollars and vice versa. It is characteristic of the circle of businessmen I became acquainted with that they

want to buy and sell for money. It is completely superfluous to push barter. Not because they have no goods to offer, but because a 50-percent punitive tax is applied to barter in Russia.

[Budai] But in Hungary it is said that the independent republics have no money; in other words, if one cannot barter with them, one cannot trade with them at all.

[Benke] This is also one of the misconceptions. They buy whatever they want to buy, and they pay for it immediately, in cash. It is a fact, however, that there are problems with payment discipline. A solution for this is to have the goods prepaid or open a credit. On the other hand, bank guarantees cannot be used because they are interpreted in a peculiar way. In other words, if our goods are of a good quality and have a competitive price, we can trade with them and they pay in dollars.

[Budai] Most people think that our goods would be needed in the independent republics, but they cannot pay.

[Benke] This is actually the third misconception. Businessmen who grew up in socialism think that we can sell anything at any price to the Russians because they have a shortage of goods. Let me give you a concrete example: In many places there is no butter. Where there is, they sell it for dollars or for a lot of rubles—and of course people aren't buying it. At the world market price there is indeed little demand for the product.

[Budai] By this you want to suggest that one could trade under the world market price?

[Benke] I can give you concrete examples. I took with me an offer for butter in 10 kg blocks, at a price of \$3.6 per kg on the Hungarian premises (i.e., without delivery). When I presented it, the Russian partner spread his offers out in front of me, grinning—as a card-player with four aces—showing that Swedish, Finnish, Danish, and Dutch firms sell the butter for \$1.6 per kg, already broken down in 250 g packages, delivered to Moscow! But I had similar experiences with other products, as well. Among my offers of wines, champagnes, and fruit juices with pulp from Balatonboglár, only the one-liter box of juice had a competitive price; shoes made of man-made material are delivered much cheaper by the Chinese, and real leather shoes by the Portuguese, rather than by the Debrecen Shoe Factory; compared to the prices of Kobanya Brewery, beer from the United States comes for pennies; instead of syrup from Szob, they buy the Finnish syrups at half price, and I could go on and on.

[Budai] However, it is doubtful whether Hungarian producers could deliver much cheaper without state subsidies. And today the state has no money to subsidize.

[Benke] As far as I know, the governments of Western European countries are spending huge amounts of money to get rid of their enormous supplies of butter and

other foodstuffs. They are right; by the time the demand in the independent republics gets larger, the overwhelming portion of the market will be theirs. On the other hand, Hungarians cannot get onto the playing field because of their high prices. This is not surprising because the price of the product must cover very high taxes, social insurance, and all sorts of fees. These rates and taxes are so high, among other things, because many unemployed people have to be paid for. In turn, sales will decrease, losses will increase, there will be even more unemployed, even higher fees, and so on.... I am convinced that through the savings of unemployment compensation which doesn't have to be paid and the taxes from preserved jobs would be many times more than the cost of export subsidies. This is how they do it west of the Lajta River....

[Budai] In other words, if we have a competitive offer, it is worth taking it there?

[Benke] It is worth trading with Belorussia and Russia. However, concerning Ukraine I am cautious because I frequently hear that parcels and trucks regularly do not reach their destination. At the same time, I would caution my fellow Hungarians not to set out for Moscow saying that they will look for a partner there. First of all, without a letter of commission—which must declare to whom we are going—they put one on the first flight back without a word at Sheremetevo airport. Second, the hotel and the partner who meets one at the airport must be organized ahead of time. For one, taxis there work in such a way that they take one into town for \$100 and one can be glad if one gets there and does not find oneself at the edge of some woods without money and luggage.... On the other hand, without preregistration, one cannot get a hotel room, or only for one and a half times the West European price.

[Budai] What style of negotiations should be followed by those who pass all these obstacles?

[Benke] The Russians are cordial people; they are not interested in the past. The only thing that counts is the offer. On the other hand, they welcome it if the negotiations include a dinner paid by us. At that time, of course, everyone is supposed to give a toast. This means as many glasses of vodka as many people are invited to dinner.... In spite of this, I didn't experience carousing and drunkenness at business negotiations. They are expressly looking for business relations, but they have lost their respect for a kind of institutionally organized meeting of businessmen. For this very reason, they were very glad that the almanac of Hungarian business life, the *Hungarian Business Book*, was published in Russian, as well, including the most important Hungarian business regulations. This is why the book will be sought after. In the independent republics, law is like butter. One cannot buy it just like that, as in any Hungarian bookstore. One must obtain it through connections, or even bribes.

[Box, p 3]

After the interview we heard the news that the Russian Government intends to tighten the regulation of foreign trade. The change will primarily concern exporters, especially of strategic products and raw materials—for instance oil, natural gas. According to the plans, only producers and state trading companies will have export licenses.—The editor

*** Expo '96: Criticism, Preparation Reported***** Concerns in Budapest**

93CH0470A Budapest NEPSZABADSAG in Hungarian
27 Feb 93 p 1

[Unattributed article: "Between Two Midwives, Expo Could Be Lost"]

[Text] "The Antall cabinet took over Expo's concept without reviewing it, and also funding could cause difficulties," declared Metropolitan Expo Commissioner Laszlo Kristof at a news conference held during the Budapest Metropolitan Council's recess.

Mrs. Etelka Pataky Barsi, the government's high commissioner for Expo, presented a report to the Budapest Metropolitan Council at its session on Friday morning, on the preparations for the Budapest Expo to be held in 1996. Council members objected that they were not being adequately informed about the preparations for Expo, and their opinion has not changed after they acquainted themselves with the report (published in detail in yesterday's issue of our paper). Numerous questions were raised about the slow progress of the infrastructural investments, and some of the speakers pointed out that the present conflicting situation could not be maintained any further.

Judit Csiha, the leader of the MSZP [Hungarian Socialist Party] caucus, regarded as especially alarming that the preparations are confined mostly to propaganda, and one does not know what is actually happening. Metropolitan Mayor Gabor Demszky felt that, uniquely in the history of world expositions, "dual power" has been created by the fact that the government, rather than the metropolis, is organizing Expo. The tensions created by the two sources of funding and the two systems of institutions can be managed only if there is suitable contact between the two parties. But that is not the case at present, he established. The cause of this, in the metropolitan mayor's opinion, must be sought in the government's antimetropolis policy. By placing new burdens on the metropolis, the government is forcing it to vegetate. Yet Expo cannot be organized without a successful metropolis, Demszky said.

According to Metropolitan Deputy Mayor Gabor Szekely, Expo's greatest problem remains the absence of an unambiguous standpoint on subsequent use. Without

such a standpoint, he said, Expo could easily become similar to the socialist state investment projects of the previous period.

In her reply Mrs. Barsi said that, contrary to her earlier views, there really is a need for a specific cooperation agreement between the metropolis and the Expo Program Bureau. As she pointed out, during the past two years the metropolis received nearly 80 billion forints for investment through various forms of funding (loans, loan guarantees, and budgetary grants). Therefore "the government does love Budapest."

*** Provinces Preparing**

93CH0470B Budapest NEPSZABADSAG in Hungarian
1 Mar 93 p 5

[Article by Andras Gyori: "The Provinces Are Also Preparing for Expo 96"]

[Text] The provinces—including agricultural enterprises, universities, and entrepreneurs—also want to participate in programs to be held, before, during, or after Expo '96. Proof of this is the fact that 199 of the 253 tenders received by 16 November, the first closing date, were submitted from the counties.

The committee judging the competition accepted the overwhelming majority of the submitted tenders; it rejected 34 tenders in all, including 19 from Budapest.

Tamas Puskas, senior counselor at the Interior Ministry's Main Department for the Development of Settlements and Municipal Services, said that it would still be possible to enter also in 1993 and in February 1994 the multi-round competition that is being organized by the Expo Council. The first detailed plans for the 222 proposed programs found suitable in the first round may be submitted until 28 February. The Expo Program Bureau will conclude contracts for the realization of the programs of international interest that the Expo Council accepts.

Most of the submitted ideas are related to folklore, sports, or culture. Many of the proposed programs want to present agriculture, the Hungarian village, and locations of scenic beauty. At the 200-year-old Georgikon in Keszthely, visitors will be able to acquaint themselves with the world's first higher educational institution for agriculture. Keszthely's exhibition and series of programs will be linked also with the international meeting on fresh-water lakes, organized by about 60 communities around Lake Balaton. Sopron will be holding a forestry and lumber-industry trade show. In Debrecen, visitors will see demonstrations of private farming. Tokaj and Eger will host a world show of white and red wines, respectively. In Miskolc we will be able to see hunting-related assets. In Galgaheviz, a show of the Hungarian village in a breakdown by historical eras will have a message for the ecological future. In Godollo, the municipal council and Godollo Agricultural University are jointly organizing a large-scale Agri-Expo. That will be

only a part of the 3.5-billion-forint program they are planning to realize before the end of this millennium.

The university has already been granted the right to administer 216 hectares of plowland, 100 hectares of which would serve the needs of Agri-Expo. Construction on this land is to proceed in several stages, but the infrastructural costs are very high. For that reason a detailed plan is being prepared also for the subsequent use of the facilities. The municipal council and the university want to establish an international agroindustrial trade center, with money provided by domestic agroindustrial enterprises and foreign investors, as well as from various loans and subsidies. For that purpose, they are forming Agri-Expo Project, Inc.

For the realization of the approved tenders it will be possible to apply for state subsidies, but financial help might be expected also from various funds, sponsors, and foundations. High hopes are being attached especially to the likelihood that the domestic and foreign organizations, enterprises, and partnerships interested in tourism will recognize the programs' inherent profit potential. Up to now primarily Italian and Austrian firms have been inquiring about how they could participate in Expo's provincial investments. As we have been told, the Expo Program Bureau will monitor the realization of the proposed programs, and the best ones will receive special recognition in 1996.

*** Szabo Said To Stress 'Social Market Economy'**

93CH0431A Budapest UJ MAGYARORSZAG in
Hungarian 25 Feb 93 pp 1, 4

[Interview with Istvan Bethlen, parliamentary representative of the Hungarian Democratic Forum, by Laszlo Jasz; place and date not given: "Gaining Strength at the Best Possible Moment; Istvan Bethlen on Forming a Government"]

[Text] *Starting on Tuesday [2 March], a significantly reshuffled government will be at the helm of the country. The changes in the state's leading body have created quite a stir on the domestic political scene. The commentaries and opinions heard cover a broad spectrum, but negative opinions and ominous voices tend to predominate. We have asked parliamentary representative Istvan Bethlen, an MDF [Hungarian Democratic Forum] politician of extensive international experience, to comment on some of the main objections and summary opinions that have been heard.*

[Jasz] The prime minister has been reproached time and again for making appointments to his government on the basis of political considerations.

[Bethlen] This is only natural. You look at any democracy in the world and you will find that prime ministers and chancellors apply political criteria when forming a government. The minister and state secretary for political affairs are the officials responsible for ensuring political control over the ministry. So it should not come

as a surprise to see the prime minister applying a political yardstick to his appointees.

[Jasz] Where could we find evidence of this in the latest reshuffle?

[Bethlen] Let's look at my field. In my opinion, the most important change has been the replacement of Mihaly Kupa, a tax expert, with Ivan Szabo, a person well-versed in the functions of what in the classical sense, and in the West even in name, has been called a budget minister, one who will give economic policy primary consideration. From now on the actions of the Ministry of Finance will not be driven predominantly by annual budgetary considerations; rather, it will make finance and budgetary policy an integral part of its long-term economic policy concept. To put it plainly: Ivan Szabo will formulate the policies of the Ministry of Finance within the framework of a long-term social market economic policy strategy. Since the government's aim is to implement a social market economic policy in this country, this amounts to a very positive change in this direction. You are right, it is a political decision. A very good political and personnel decision, I might add.

[Jasz] Comments motivated by party politics allege, in part, that the prime minister has used the government realignment to enhance the popularity of the MDF and to divert attention from its problems.

[Bethlen] To the contrary. It is common knowledge that the prime minister had intended to announce his proposed personnel changes during the fall session of parliament already. Along with a good number of other significant political measures, this was one of the pending actions that came to a halt as a result of Istvan Csurka's ill-considered essay of 20 August. In the wake of its publication, the prime minister was left with the task of controlling the resulting domestic and international damage and trying to put the pieces back together. It was against this background that the national congress of the MDF was to be held in November. And during the most crucial budgetary period when every representative, minister, and cabinet member was needed in parliament. And without them we could not have held a national conference. This is why things have been delayed for this long.

[Jasz] It has also been said that this was already a belated, "end-of-the-season" kind of reconstruction." Why is there this perception out there? May there have been a more opportune time for reorganizing the government?

[Bethlen] It was not a belated move by any means. I am one of those who, since the time this government has been in existence, has been asking and demanding that the cabinet proceed more markedly and much more expediently with the implementation of a social economic market policy. The shift of emphasis was already discernable in 1992. The present change of personnel unequivocally suggests that for the remaining year and a half, the emphasis will be on putting into place a social

market economic program. In the areas of economic and financial policy a lot can be accomplished in a year and a half.

[Jasz] To this some might say that, of course, the government already has one eye on the upcoming elections...

[Bethlen] Yes, unfortunately voters have short memories everywhere in the world. What weighs the most in any government's career is what it was able to accomplish during the last year of its tenure. I am convinced not only that the reshuffling of the government was not belated, but that it happened at the best possible moment in time.

[Jasz] There is also the opposite view, or perhaps wish, that with the government crippled a year before the elections, the ship has already left port for good.

[Bethlen] This is incorrect. Let me stress once again: The appointment of Ivan Szabo to the post of finance minister is a clear indication that the government intends to place a much greater emphasis on implementing its social market economic program, for without it there can be no Hungarian economic and financial recovery. Gyorgy Schamschula has also earned a reputation around the country as a man with a clear understanding of our economic priorities. He has proven to be a tenaciously tough negotiating partner, one capable of standing steadfastly behind the government's indisputable positions. One must also keep in mind the pivotal importance of the transportation ministry from the point of view of economic policy. I am convinced that in the person of Gyorgy Schamschula, the prime minister has chosen a minister of transportation, who perhaps more than anyone is a firm and committed proponent of the principles of social market economy. I could go on, but even from the vantage point of my own field of expertise I can assure you that the two new appointments made in the areas of economic and financial policy have only strengthened, not weakened, the government.

* IMF Representative Szapary on Negotiations

93CH0475A Budapest FIGYELO in Hungarian 4 Mar 93 pp 16-17

[Interview with Gyorgy Szapary, IMF representative in Hungary, by Gabor Karsai; place and date not given: "Hungary and the IMF; The IMF Is Waiting for a Consolidation Schedule"]

[Text] *Today we know that nine months ago, in June 1993, the Hungarian Government made a secret pledge to the IMF delegation negotiating here—clearly not by choice—to forego requesting the issuance of the next installment of the credit allocation it had been scheduled to receive under a three-year agreement with the IMF. Publicly, however, the representatives of the IMF spoke with surprising satisfaction about Hungary's economic policies, despite the fact that the rapidly rising budgetary deficit and the stimulus measures that were just peaking at the time were beginning to cause grave concern among*

the experts at home. What was behind the IMF's projected attitude? Were they simply honoring the prime minister's wish not to cast a shadow over the second anniversary of the government's assumption of power by demanding the submission of a supplemental budget? Were they counting on the economic processes to turn for the better? Or was it simply—as Mihaly Kupa alleged last summer (FIGYELO No. 33, 1993)—that the IMF's projections for 1992 were even worse than the government's, and thus a criticism would have also meant self-criticism at the same time?

[Karsai] How would you assess the relationship between the IMF and Hungary over the past nine months?

[Szapary] First of all, the government has never made, nor could it have made, any "secret" pledges not to ask for a scheduled payment of IMF credits, as the issuance of those credits is governed by certain basic conditions which had not been met and for which no new conditions have been negotiated. Secondly, no one has indicated to the IMF that they would not want to submit a supplemental budget on the second anniversary of the government's second year of operation. As far as the assessment of the 1992 economic processes are concerned, a distinction needs to be made between results and the means used to achieve them. The positive comments made by the Monetary Fund pertained to the results, i.e., to the curbing of inflation as planned; the favorable trends in the balance of payments and the volume of exports; the acceptable gains made in the areas of privatization and law-making; and the implementation of a new bankruptcy law. Naturally, we were also aware of the negative developments, such as the considerably greater-than-projected decline in production and jump in unemployment. The chief cause of this was a far more drastic shrinking of our Eastern European markets than could have been anticipated in the summer of 1991, or forecasted in designing the main components of the 1992 budget. This has also been the cause of the sudden jump in the budgetary deficit.

At the same time it should be kept in mind that the budget is only a means of accomplishing macroeconomic objectives. Since the greater-than-anticipated savings could be used to finance the budget deficit, it did not pose an immediate threat from the point of view of economic results. When, at the semiannual IMF review in the summer of 1992, the size of the deficit became clear, the IMF and the government began to focus their attention on the 1993 budget. The situation the Hungarian economy was in did not demand immediate intervention; in other words, it was possible to put off the steps needed to halt or slow down the budget deficit increase until the 1993 budget, although some cuts were also made in 1992 expenditures.

Thus the debate at the September 1992 Washington negotiations with the Hungarian financial delegation was centered around setting an acceptable budget deficit goal for 1993, identifying the measures needed to keep the deficit at that level, and trying to get a projection for 1994-96. It was agreed that in 1993 the deficit would be

kept at 6 percent of the GDP (computed on the GFS [expansion unknown] scale in terms of the consolidated budget), on the condition that the Hungarian Government would work out the additional steps required to reduce the size and ratio of the budget deficit in 1994-96. This was how the budget consolidation program came about.

[Karsai] How successful was the Hungarian Government in living up to its commitments?

[Szapary] At our talks in January, we learned that parliament had set a 6.2-percent consolidated budget deficit limit, which was slightly higher than what had been agreed to, and took note of its intention to replace the tax revenues lost as a result of the introduction of a compromise-inspired, two-tiered, turnover-tax schedule with revenues earned from privatization. This latter course is an inauspicious one in light of the fact that within a few years revenues earned from privatization are expected to decline, and thus will result in having to implement additional spending cuts. Nor do we think that it is a good idea to use a large portion of the revenues earned from privatization to finance certain funds directly, circumventing the central budget. For this way these objectives will be shielded from having to compete with other budgetary goals. We are not necessarily taking issue with the intended use of these funds, but we do think that they should be kept within the framework of the budget.

The discussion in January concerned some of the figures projected in the consolidation program of the state budget, the measures required to attain them, and the schedule by which they were to be implemented. One of the problems here is that the compromises reached in the course of the 1993 budget debate will naturally also impact the 1994-96 period, cutting, for example, into revenues generated by turnover taxes, and increasing certain expenditures. This means that the Hungarian side is expecting to incur a larger deficit in 1994-96 than before. The experts of the IMF, on the other hand, are of the opinion that in order to meet the projected goals laid down in September, even tougher measures would need to be taken than had been originally proposed. These are the two positions that somehow need to be reconciled.

[Karsai] Where are the battle lines currently drawn? What would the government and the IMF be willing to agree to, respectively?

[Szapary] I cannot give you any numbers, for this is one of the topics that is currently being discussed.

[Karsai] At his confirmation hearings in parliament, Minister of Finance nominee Ivan Szabo suggested that a 6.5-percent deficit would be the realistic figure. Would this be acceptable to you?

[Szapary] Once again, I have to repeat that I cannot give you any numbers. But there is no question that steps will definitely have to be taken to reduce the deficit.

[Karsai] According to the minister of finance, attempts to cut the budget deficit even more drastically would lead to further declines in domestic demand and thus also in economic performance, which in turn would also make the original goal, namely the reduction of the deficit, impossible to attain. What is your opinion on this?

[Szapary] This is a matter of proportions. Without the necessary steps the deficit would reach such dimensions by 1994-96 that it would syphon away any savings realized by the enterprises. Nor would it solve things if the government went further into foreign debt to finance the deficit, for this would limit the possibilities of future development. We need to plan several years ahead.

[Karsai] How in the opinion of the IMF can the Hungarian budget deficit be reduced?

[Szapary] Revenues may be increased by cutting benefits and expanding the tax base, for today there are still several types of income that are either not taxable or are subject only to a preferential tax assessment or social insurance charges. Further improvements are needed in the methods of tax collection, and local governments could be asked to assess local taxes, for example, on real estate. On the outlays side of the ledger, social expenditures could be more effectively targeted, for example, by including the family supplement in the tax base, which would benefit those with moderate incomes. Steps should also be taken to combat fraudulent disability pension and unemployment benefit claims.

[Karsai] A few days ago Ivan Szabo stated that the IMF must be made to understand that a budget deficit that is simply a result of economic processes is very different from one that results from conscious sacrifices, such as investments. How do you feel about that?

[Szapary] The Monetary Fund understands that distinction. This is, for example, why we have accepted the huge deficits of 1992 and 1993, because we have recognized that they were primarily the results of the external shock of losing the Eastern markets and confronting the unavoidable difficulties that go with change. This, however, only underscores the need to reduce the budget deficit now that the external effects have begun to fade.

I also agree, for example, that if budgetary resources are used to finance certain important infrastructure-related investments, then a slightly higher deficit is more tolerable than it would be otherwise. The Hungarian budget deficit, however, is not the result of these types of expenditures. They may opt to increase outlays for such purposes, but under the present circumstances they would be feasible only with simultaneous reductions in other expenditures. In other words, resources needed for infrastructure-related investments, debt consolidation, or for other such priorities can only be created by restructuring other expenditures.

[Karsai] How do you feel about the argument that since the Hungarian GDP is probably greater than stated in the official statistics, the relative ratio of the budget deficit is also off base?

[Szapary] Nominal budget deficits also affect the macro-economic processes, including overall demand, inflation, and interest rates. Expressing the deficit in terms of the GDP is done mainly for the purpose of time comparison and to filter out the inflation factor. So from this point of view the technique of GDP-based computation holds no special significance. If the actual GDP is indeed greater, then it is not only the budget deficit that will be lower but also the ratio of savings and investments. In other words, it does not affect the "displacement" effect of the deficit.

[Karsai] Are you not concerned that the consolidation of credits, the reorganization programs of the large enterprises, and the growing prominence of privatization techniques that practically amount to giveaways will encourage bankers, managers, and entrepreneurs to take irresponsible risks?

[Szapary] Credit consolidation is not inconsistent with market economic principles, and it is important means of strengthening the banking sector. It should also be noted, however, that helping the banks is only the first step in that process. There is also an indispensable second step—i.e., the strengthening of banking regulations aimed at preventing the recurrence of new accumulations of bad loans—and a third step involving the reorganization of the enterprises involved. The technologies of the latter two steps are still undeveloped in Hungary, hence a joint IMF/World Bank delegation will be coming here to discuss the technical aspects of those steps.

There are several foreign examples of successful pre-privatization attempts at reorganization. We must accept the fact that in some instances the government simply will not have any other choice but to reorganize should it turn out that liquidating the enterprise would incur greater losses, or that for some reason privatization would be impossible or undesirable to undertake in the short run.

I am not familiar with the details of the proposed privatization bond, so that is something I cannot yet comment on.

[Karsai] During its January visit, the only party the IMF delegation negotiated with was the SZDSZ [Alliance of Free Democrats]. What is the explanation behind this?

[Szapary] There were no negotiations. It was Karoly Attila Soos, the chairman of the parliament budget committee, who came to talk to us. Such meetings had been held before. The IMF, incidentally, maintains liaison with the economic experts of all parliamentary parties, but this time no one else has come to see us. Our discussions with experts of other parties are always held with the full knowledge and support of the government.

[Karsai] The trade unions would also like to establish direct ties with the IMF and the World Bank. How do you feel about that?

[Szapary] The IMF openly supports the establishment of such a relationship. Just recently, Hungarian trade union leaders have met with the leaders of the IMF in Washington, and I personally have been invited by them on several occasions to address various trade union forums. Although we negotiate with governments, it is also important for us to know the position of the trade unions, and of course we try to convince them that long-term economic growth is a common goal, and that the steps we are recommending—which in the short run unfortunately are often painful indeed—will promote the attainment of that goal.

[Karsai] In an interview with FIGYELO two weeks ago, the Finance Ministry's State Secretary for Public Administration Zoltan Nagy argued that the IMF needs to come to grips with the fact that the country, which for an entire decade now has been shaping its economic policies in accordance with the guidance provided by the IMF, has been failing. How important is Hungary to the IMF? The reason why I am asking this question is because while Slovakia and Romania so far have not been granted the IMF loans they had applied for, the Czech Republic did get the credits, and Poland's willingness to accept the budget plan proposed by the IMF seems also to have set the stage for signing an agreement between that country and the IMF.

[Szapary] One of the basic principles subscribed to by the IMF is that every country is equally important, and that the same criteria are applied to all in the granting of loans. This, of course, does not mean that we do not take into account the unique characteristics of each individual economy.

As far as the failures are concerned, in most cases they are attributable to the fact that the countries in question have failed to take the necessary steps also proposed by the IMF. As far as the Eastern European region is concerned, it is impossible to draw far-reaching conclusions on the basis of the experiences of only a few months or perhaps a half a year regarding the relative success of a particular country; governments often need some time even to establish the necessary political conditions at home before the new measures can be implemented. In my opinion, Hungary, the Czech Republic, and Poland have the best chance to bring about economic growth.

[Karsai] In the past few weeks there has been a lot of guessing about the possibility of a meeting between Jozsef Antall and Richard Erb, deputy general manager of the IMF.

[Szapary] Mr. Erb had indeed suggested that, if necessary, during his upcoming trip to Davos he would also come to Budapest, at which time he probably would have also met with the Hungarian prime minister. In the

meantime, however, he has had a chance to meet with Mihaly Kupa in Davos, so his visit has been taken off of the agenda.

[Karsai] What are the IMF's expectations of the reshuffled Hungarian Government?

[Szapary] The adoption of a three-year program aimed at consolidating the national budget which contains not only numbers—such as the size of the projected annual budget deficit expressed nominally as well as in terms of the GDP—but also the scheduled steps designed to attain those goals, including a timetable for the submission of draft proposals to parliament in support of those measures.

Well-Informed Optimists

As we have already reported, the Ministry of Finance has issued a news release summing up the accomplishments of the IMF negotiations that ended in February, and at the same time announcing their impending resumption. The headlines of the articles that appeared in the national papers the day after the release concerning the announcement or the subject itself leads one to make some interesting comparisons. While according to the optimistic headline of UJ MAGYARORSZAG "The IMF Is Satisfied," MAGYAR HIRLAP's objective but not very encouraging headline claimed that there had been "No Agreement With the IMF." A similar but somewhat more promising headline appeared in VILAGGAZDASAG, stating that the "Agreement Was Postponed." The headlines of NEPSZABADSAG, NEPSZAVA, MAGYAR NEMZET, and NAPI all made mention of the conclusion and scheduled resumption of the talks.

Does the press manipulate information? The diversity of philosophies represented by the various papers is well known. In this case, however, the root of the discrepancy lies in the Finance Ministry's announcement. For there is little else that one can directly derive from it other than the impression that the IMF was satisfied; the only clue suggesting that things may not have been entirely satisfactory was the comment that the "IMF has made further recommendations." The statement about the "resumption of the talks in the near future" would be interpreted as negative only by those who know that originally they had been set to end, and that this wording in IMF jargon simply means that "no agreement has been reached."

The discrepancy in the presentation of the news concerning the IMF negotiations from paper to paper, therefore, is not to be attributed solely to the different biases of the editors. What we have here is a confirmation of the validity of an old saying that pessimists are really nothing more than well-informed optimists.

* Leading Opposition MP Criticizes State Budget

93CH0506A Budapest FIGYELO in Hungarian 11 Mar 93 p 6

[Interview with Gyula Gaal, Alliance of Free Democrats National Assembly representative and chairman of the Audit Committee, by Gabor Karsai; place and date not given: "State Household Reform; It Would Be a Miracle"]

[Text] SZDSZ [Alliance of Free Democrats] representative Gyula Gaal, the chairman of the parliamentary Audit Committee, claims that the government bases its domestic debt management on nonexistent resources.

[Karsai] In discussions with the IMF, Karoly Attila Soos, your fellow faction member and chairman of the parliamentary committee on the budget, supported in broad, general terms the government's state household reform concept. What does this mean in practice?

[Gaal] As I stated in December 1990 in conjunction with the 1991 budget debate, there is a need to rethink the state's role. Actually, the idea of state household reform was accepted by the government only as a result of necessity presented by the dramatic growth of the budget deficit, and thus—as FIGYELO, too, indicated—the related proposals had the character of "adding a coat to the button."

Our general support of the government's concept means only this much: Consistent with our responsible political conduct we do not attack the proposed, and unfortunately, unavoidable, unpopular measures. At the same time I recognize the fact that the program stops short at certain partial measures, then uses two kinds of techniques to avoid the problem, once the magnitude of the problem is understood. In part, the government provides prognoses for growth, savings, and the attraction of foreign capital that are rather optimistic from the outset and continuously keep improving—only on paper, of course!—while, in part, certain problems are often suppressed or avoided. For example, there are virtually no measures in the social security reform proposal to improve the balance. Instead of improving the balance, they want to establish a separate fund for public employees. They want to finance expenditures for services that were paid for by social security before, services to which people are entitled on the basis of social welfare considerations and not on the basis of insurance. These expenditures would therefore have to be financed in the future by the state budget, from the incremental revenues earned by this fund, and these incremental revenues could be obtained by paying higher than average wages and based on the certainty of collecting the related contributions. Not a single sentence deals with the issue of what is going to happen to the "remaining" social security.

[Karsai] Does anyone sense on whom the government intends to place the primary burden, and with whom it tries to avoid confrontation?

[Gaal] I do not see a clear-cut value system. The program was written by people responsible for the central budget; consequently, they are trying to improve the budget position to the detriment of local government, social security, and segregated state funds. Thus, only one stratum can be defined clearly: the pensioners, who are definitely going to be adversely affected. This is also revealed by a sentence which indicates that as a last resort, they would have to reduce funding levels which serve to maintain the purchasing power of pensions.

The government of Hungary has no economic philosophy, and therefore submissions by the various ministries become "specialized," and this is why a clear demonstration of political alternatives is missing from these. Equally true is the fact that the situation is peculiar. We know that Clinton wants to increase the tax rate for the richest people from 32 to 36 percent in the United States, at the same time, however, in Hungary the tax rate applicable to income beginning at 500,000 forints—not a high income at all—is 40 percent, so that there is really no one who could accept the burden. The government tries to either support the poorest of people, or "it turns its head away," and tries to build a middle class, to prevent severing itself from that stratum, claiming that there is no future without a middle class.

[Karsai] What is your view of the statement which holds that the program is not aiming for increasing the nominal value of taxes and social security contributions collected, but for broadening the tax base, and for improving the efficiency of revenue collections?

[Gaal] These are platitudes everyone agrees with. The path to real increases in, and the more efficient use of tax revenues leads through a greater role to be played by local governments. The state should declare that the financing of certain expenditures is not its business, and at the same time it should also surrender part of the tax revenues. Land and vehicle taxes could be assessed at the local government level, and the reduction in entrepreneurial profit taxes could be offset by local business taxes.

Taxpayers in the various settlements have a better chance of seeing how their taxes are expended for the purposes of the community, and have better control over the expenditures. Under local conditions, the concealment of taxable income could also become the source of more open conflict, not favored by the persons involved. At the same time, being one of the high taxpayers in a community represents prestige. This would also require the lifting of secrecy regarding the amount of taxes paid, of course.

[Karsai] Isn't the picture you just painted of local governments too idealistic? Transparent conditions like this could hardly exist in a city or in a district of Budapest.

[Gaal] I agree. But once state services—such as health care and education—are not free for some time, in other words, once the citizens must pay for these services, these services must be tied to the citizens' right to have

a say in how those services are to be provided. For example, I regard as a big mistake the fact that foundation schools and private schools are not eligible to receive a number of benefits granted to parochial schools.

[Karsai] In your view, is it going to be possible to maintain the 185-billion-forint budget deficit level planned for 1993, which is also a requisite to the 1994-96 state household consolidation program?

[Gaal] Previously I predicted that this year's deficit could be as high as 250 billion forints. The 25.8-billion-forint deficit for the first two months amounts to less than what we would expect on a time-proportionate basis, and it is lower than last year's deficit during the same period, but I am not yet familiar with what's behind the various, specific financial transactions. I am not so much concerned with the budget deficit, than with the growth of state indebtedness. The increment in this regard could become double the amount of last year's increment, it could go as high as 500 billion forints. In this regard, in addition to the budget deficit, the 110 billion forints needed for credit consolidation and the settlement of the surplus accountable for in rubles may play a primary role. As we know, Russia is making installment payments on the MNB's [Hungarian National Demand] receivables in the form of arms deliveries, and this increases the budgeted amount required to support the Ministry of Defense. Accordingly, the MNB's receivables must be paid by the Hungarian state, and this amount increases the state's indebtedness.

The state indebtedness has already amounted to one-fifth of the expenditures this year, an amount larger than the deficit, and an explosive increase in this regard could constrain the budgets of the upcoming years. On the other hand, the consolidation program includes virtually no proposal to handle this problem. For example, scheduled payments from the AVU [State Property Agency] and from the AVRt [State Property Management Corporation] were already parts of the 1993 budget, therefore these would not represent new sources.

It would take a miracle, a 3- to 4-percent GDP growth, to consolidate the state household in the next few years. Unless this takes place, a further reduction in expenditures—creating larger social conflicts than before—becomes unavoidable, and it will require a great determination on part of the new government taking office after the 1994 elections to implement these cuts.

*** Statistical Office Reports 1992 Production Data**
93CH0506B Budapest FIGYELO in Hungarian 11 Mar 93 p 7

[Unattributed report: "Central Statistical Office on 1992: At the December 1991 Level"]

[Text] In 1992 the value of industrial production amounted to 1,946.1 billion forints, 9.8 percent less at

comparable prices than in 1991. The decline is about half the rate of decline in the previous year. The pace of decline of production has slowed down in the course of the year: A decline of 16.6 percent during the first two quarters was followed by a 2.5-percent decline in the third and fourth quarters. (The production value in December exceeded the December 1991 production value, regarded as the low point, by 3.6 percent.) Disregarding seasonal effects, the monthly production value in the course of the year fluctuated near the December 1991 level.

The ratio of small organizations which manifested a dynamic increase in production has increased from 6.4 percent in 1991 to 14.1 percent in 1992, but their increased production only managed to reduce, not offset the 17.2-percent decline in production at larger enterprises.

Reduced production could be observed in every main branch of industry, albeit in varying degrees. The increasing ratio of energy resources and food industry production continued, and so did the declining ratio of the foundry and machine industries, and the chemical industry not related to energy resources. The shrinkage in the construction materials industry and in the light industry has stopped. Industrial exports in 1992 increased primarily in the base material and energy product fields, and within the processing industry branches—thanks to the growing trend of hired labor; only the light industry was able to increase its exports. The rest of the branches (machine, chemical, food industries) exported less in 1992 than in the previous year.

* Radio-Telephone Tender Status Discussed

93CH0506C Budapest FIGYELO in Hungarian 11 Mar 93 p 9

[Unattributed article: "Radio-Telephone Tender: It Won't Go Without a Frequency Law"]

[Text] More than 50 firms purchased the tender invitation for bids for a GSM [Special Mobile Group] radio-telephone service concession announced last October, an official of the Ministry of Transportation, Communications, and Water Resource Management told this newspaper. The ministry held a prebid conference in late February to answer questions and to announce the final conditions of the competitive bidding process to the 32 prospective bidders present.

The ministry made the following important announcements concerning the conditions. In the framework of a uniform competitive process the ministry will simultaneously grant two concessions in late August, neither of which will be linked to the privatization of MATAV [Hungarian Telecommunications Enterprise] Corporation. Both winning bidders must establish their concessionary corporations within three months from the announcement of the competition results, and the award will stipulate a minimum of 25 percent plus one share of Hungarian-owned stock. Both companies must comply

with identical conditions; thus, for example, within three years after consummating a contract, and prior to the World Exposition, the service coverage must extend over three-fourths of the country's area.

The GSM radio-telephone service fees will be higher than the fees charged by the cable telephone network; at the same time, however, broad coverage is conditioned by the ability of greatest possible number of subscribers to pay the higher fees. For this reason, the chief criteria in judging the bids will be the level of service fees to be charged, the time frame in which services become available, the pacing of service provisions, and the ratio of Hungarian involvement in the establishment and operation of the network.

A further precondition for the judging of bids, the grant of concessions, and the observance of scheduled deadlines is that the Telecommunications Law adopted on 23 November 1992 take effect. The submission date for concessionary bids will be determined by the date when the law concerning frequency management is adopted. This law must be debated and voted on by the National Assembly prior to the end of March in order to permit the Telecommunications Law to take effect by 1 July 1993 at the latest, so that GSM concessions may be issued in August.

* Problems of Independent Family Farms Described

93CH0506D Budapest FIGYELO in Hungarian 11 Mar 93 p 26

[Article by P.B.: "Is the Farmer Free?"]

[Text] Family farming is the officially declared future of agriculture. But to accomplish this is easier said than done.

The 1991 agricultural census shows that about 39,000 then small producers—or 40 percent of people engaged in farming—said that they wanted to become private farmers by using assets acquired through compensation and the conversion of cooperatives.

A study prepared by the Agricultural Economic Research and Information Institute and publicly debated recently, entitled "Significant Factors Determining the New Structure of Estates Evolving as a Result of Change in Ownership," describes the pros and cons of private farming. Objective criteria discourage people to become independent. These are: the lack of even a minimum level of security in production, difficulties in obtaining credit, and interest groups and information networks that do not function. On the other hand, existential uncertainty, unemployment, inflation, and the increased family cost of living force one to become independent.

Compensation vouchers received "free of charge," proportionate ownership shares in cooperatives, and arable land received on the basis of employment relationships encourage people to become independent.

Frankly, only those new independent farming ventures have proper foundations in which the families have already pursued small-scale farming for decades managed to accumulate capital (implements, machinery), build a market for themselves as well as stable relationships, and acquire competence in both farming and enterprising. These people have good foundations to look forward to receiving their compensation vouchers and cooperative business shares, and to the termination of their employment relationship.

Insofar as production structure is concerned, these new enterprises can be expected to become mixed profile, diversified farms. Single-profile farms carry an increased risk because they have no price leverage, and cannot count on income subsidies, for now.

Under present circumstances, farming enterprises created under the constraint of lost jobs, which lack capital and are based only on land received in the form of compensation, are doomed to fail. The government has not yet decided whether it would help sustain such farms by quickly developing supporting institutions, or if it would let these farms vegetate by producing just enough agricultural products to sustain the owners' families.

Change in ownership strengthens the capital position of already functioning private farmers; this, however, does not directly contribute to increased plant sizes and increased output. Entrepreneurs use the arable land and implements received in the form of compensation and in the course of converting cooperatives primarily to strengthen already existing farming enterprises. Instead of working on leased land and with rented machinery they work on their own land and increasingly with their own machinery.

In parallel with taking possession of new assets, a change in production structure could increase agricultural plant sizes and the resultant agricultural output. Such changes, however, involve a slow process in agriculture. Villagers do not make changes easily in part because of their well-known conservatism, and in part because of problems related to finances, the market and to obtaining information.

The future size of new farming enterprises will be determined primarily by the size of land and the volume of assets that can be acquired, and by the volume of assets previously accumulated by small producers. The average size of arable land acquired at auctions prior to late September was about four to five hectares with an 84-gold crown value. One should add to that 20-30 gold crowns based on cooperative membership or employment at a cooperative, and this translates into another hectare, or a hectare and a half of land. Today five to seven hectares of land of land sustains a family only if it is used for animal breeding, or for growing vegetables, medicinal plants or spices, or, perhaps berry fruits.

This kind of produce, however, has only a limited market, is costly, and requires expertise, and therefore

does not provide a secure livelihood to people forced to become private farmers upon becoming unemployed.

New owners intend to engage in farming on only 20 percent of the land reclaimed in the form of compensation, according to estimates. The larger part of such land (a total of almost 2 million hectares) will be offered for lease in five- and 10-hectare parcels. Insofar as supply is concerned, it seems there will be no obstacle in the path of developing private farms of a viable size.

According to conservative estimates, however, a farming family also needs between 8 and 10 million forints of capital, in addition to 20-30 hectares of arable land, in order to make a living. Reserves accumulated from prior small-scale farming, cooperative ownership shares, and credit could become the sources of such capital. But the average value of the proportionate cooperative share is so low that it is insignificant, while credit is hardly available to starting farmers. The average amount of deposits in savings cooperatives by villagers amounts to less than 100,000 forints, and capital tied down in small farming is also substantially lower than what would be needed.

Accordingly, in addition to lack of expertise, the evolution of family farms of a viable size will be impeded primarily by the lack of capital.

*** Privatization Leasing: Managers Expected To Gain**

93CH0506E Budapest FIGYELO in Hungarian 11 Mar 93 p 30

[Article by Ervin Zsubori: "Privatization Leasing: The Power of Information"]

[Text] Privatization leasing promises to be a unique opportunity for management buy-outs; as such it has a chance to succeed.

At first, only eight enterprises had an opportunity to privatize themselves through leasing. These included Urania Clothing Sales, Ltd., headquartered in Szombathely, which previously—in the first phase of self-privatization—entered into an agreement with "Budapest Investment" Hungarian Investment and Consulting Corporation, one of the expert consultants in the field of privatization. Since the enterprise could not be sold for cash even after several announcements, the consulting firm asked that Urania be included in the experimental group of enterprises to be privatized through the leasing arrangement, giving Urania a last opportunity to be privatized.

Based on the experiment, professionals at Budapest Investment regard leasing as a fundamentally sound method of privatization, but requiring quite a few refinements. They view the method as an installment-payment technique boosted with tax benefits, which in these days of capital shortage could advance the cause of privatization even if only within a limited scope. The leasing

technique could, potentially, be applied regarding every state enterprise that is capable of functioning on a relative scale (i.e., is not subject to liquidation), but whose financial burden is so great that it could not take out another loan and make the related installment payments. Since the privatization leasing technique does not require an enterprise's "own resources," this technique is attractive to investors who have assets to serve as collateral, even though they do not have free resources.

Competitive bidding processes completed in the meantime reveal that enterprise managers (either individually or jointly with their colleagues) had entered bids for the firms they managed in every instance. This then suggests that the privatization leasing technique actually created a new, peculiar method for management buy-out.

"Persons privy to information have advantages in every business transaction. In the framework of privatization leasing, however, being informed becomes especially valuable," according to Andras Boros, one of Budapest Investment Corporation's directors. "Unlike in most other privatization processes, money—the other classic factor—is less important in privatization leasing, because this process eliminates the need for money. On the other hand, information is available primarily to 'insiders.' Although 'insiders' could be understood to include the large suppliers, customers, creditors, and even the chief competitors of a given firm, the existing management of the firm still enjoys the greatest situational advantage. This actually is a given, objective factor that flows from the essence of the technique, one that cannot be fought, and is probably not even worth fighting.

"Beyond the situational advantage, it is also in the existential interest of the incumbent management to enter a bid, and preferably a winning bid, in response to an invitation. If they fail to take advantage of this opportunity they can count on their early dismissal by the winning bidder: a person who pledges his home, his lot, or his foreign exchange as collateral would certainly want to take the management of a firm's affairs into his own hands. But even if no changes in management were made, the prospect of producing in the course of many long years the leasing fee offered—i.e., the right to ownership for a group of silent partner lessees—is not overly attractive to a management group that retains its position.

"Accordingly," Andras Boros concludes, "enterprise management is likely to enter bids in every future instance, and this is not necessarily a bad situation. To the contrary. One should be concerned about the fact that in a majority of the enterprises that could be leased, some immediate operating decisions, some truly hands-on management would be required in order to keep these enterprises on their own feet. This can only be accomplished without clearly separating ownership functions from management functions. The future—supposedly

frequent—management buy-outs of enterprises could accomplish this, thus enhancing the likelihood of the enterprises' success."

A financial investor could afford influencing business activities through corporate actions over a period of a few years. This cannot be done in the framework of leasing; therefore, one should count mainly on investors from within a given trade, irrespective of whether those are inside or outside a given enterprise. This situation limits the number of potentially interested investors on the one hand, but raises a threat on the other: If "dilettants" become the successful bidders, they would, by virtue of their nature, immediately take over the management of the enterprise, and consequently, the enterprise would fail shortly thereafter. In Andras Boros's view the threat of this happening is remote: The "dilettants" would in all likelihood be kept far away because of the implicit low level of risk-taking ability, and the great number of tasks involved in the management of a business organization.

Accordingly, one must be concerned about the reign of unenthusiastic amateurs. The real risk presents itself mostly in the adverse financial position of the enterprises involved, and in the fact that, from an expert point of view, the lessee's dispositional authority over the assets is rather limited. Over a period of six to 10 years, it would be difficult to make a corporation succeed without management reaching into the structure of the firm's assets, without turning fixed assets into liquid funds if so required, without raising capital, without pledging assets, and without establishing other corporations, and so on. Depending on the extent to which controls are going to be bureaucratic, in the framework of privatization leasing any of these steps can only be taken through the State Property Agency [AVU]. This suggests excessive caution on part of the AVU, especially if one considers that the freedom to make decisions (and the prospect of acquiring ownership rights, of course) is not the least factor that could motivate lessees to function efficiently.

Since in most of the cases the lessees will be the members of the previous management, we will frequently hear charges asserting that the previous management must have concealed reserves, that it deliberately deteriorated a firm in order to acquire leasing rights in order to easily turn the enterprise into a success operation in order to enrich themselves. While we certainly will condemn such "strategies" in the strongest of terms, Andras Boros believes that these strategies will not become characteristic of privatization leasing.

The real change, the opportunity for renewal, stems from the fact that by winning a bid to lease, by entering into agreement, the lessee is faced, in principle, with a clear situation: He will be left alone, and he will be his own master for six to eight years if he performs pursuant to the agreed-upon terms. The existential uncertainty that stemmed from the transitional period (What is going to happen to the enterprise? Who will be the new owner?

Will I retain my management position?) and which caused substantive decisions and development projects to be delayed no longer exists. This uncertainty is replaced—in addition to free decisionmaking—by real risk, which serves as a rather strong motivating force: They are going to auction even the roof from over my head unless I work, unless I make this firm successful.

The new situation that evolves as a result provides a chance for success, and hopes that among the growing number of privatization techniques, leasing is going to become one of the techniques that functions.

* Central Statistical Office 1992 Economic Data

93CH0469A Budapest NEPSZABADSAG in Hungarian
1 Mar 93 p 5

[Unattributed report: "Last Year's Data: The Recession Decreased"]

[Text] In the transformation of the organizational and institutional structure of the economy, two complementary trends can be discerned, the Central Statistical Office states in its survey of 1992 economic and social processes. One of them is the dissolution of old, large organizations, and their transformation into smaller economic corporations; the other is the creation of a large number of new, small organizations. The strengthening domestic and foreign private capital is playing a large role in both processes, often assuming an exclusive role in a corporation. By the end of 1992, the number of economic organizations grew to 69,000; this is 16,600 more than last year. Of these, 4,100 are owned completely or partially by foreigners; thus, by the end of 1992, the number of such corporations surpassed 13,000. The proportion of production by the private sector increased further, reaching about one-fourth of the GDP.

In the past year, bankruptcy proceedings were initiated against 2,300 economic organizations, and liquidation started in more than 2,000. Difficulties of liquidity increased in several large companies, and this put a part of their otherwise profitable business partners in a difficult situation.

A part of agricultural cooperatives was liquidated, and the rest were transformed. Approximately 10 percent of the members in the latter group withdrew from the cooperative.

According to the data at our disposal, the decrease in the GDP continued last year, as well. Within it, the plunge in agricultural production is the most serious, which considerably exceeded that of 1991. In 1992, the decline of industrial activity was half of that in 1991; the construction industry, which in the past years has exhibited a continual decline, repeated its 1991 performance.

According to preliminary data, at current prices 12 percent more was spent on investment, but at comparative prices this was less than last year.

The decrease in orders was also half of the decrease in 1991. The national economy used 11 percent less energy than in the previous years, when the decrease was around 5 percent.

The number of registered unemployed reached 663,000 by the end of 1992; the growth in their number has slowed down. The net nominal income of the employed has increased by 22 percent. The real value of this increase was slightly lower than last year. The differentiation of income has increased. Of retired people, 118,000 more received nominally 13 percent higher pensions than last year.

The consumer price index grew in 1992 by 23 percent; this shows the lessening rate of inflation. Within this category, the industrial price index decreased considerably (1991: 31.9 percent; 1992: 9.7 percent), while the price index of agriculture and construction increased (1991: 19 percent; 1992: 27 percent).

The deficit of foreign trade decreased from 91 billion forints [Ft] in 1992 to Ft34.5 billion; the trade balance deteriorated by 2-3 percent. In the area of trade, the expansion of Western markets continued. Germany is in the first place, followed by the successor states of the Soviet Union and Austria.

The current balance of payments closed in 1992 with a surplus. The net debt decreased from \$14.6 million to \$13.2 million. The gross debt decreased by 2-3 percent, while the gross credit balance increased by approximately 10 percent.

The central budget deficit grew to 1.7 percent of that of 1991, to Ft197 billion. In the financing of the deficit, state bonds and treasury bonds play an increasing role.

Economic Activity Indexes		
	1991	1992
	(in percent)	
GDP	-12	4-6
Agricultural production	-5	-23
Industrial production	-19	-10
Construction activity	-8	0
Orders	-36	-16
Energy use	-5.2	11
Growth of unemployment (1,000 people)	325	257
Investment	-12	-8
Inflation	35	23

* 'Favorable' Signs in Construction Sector

93CH0469B Budapest UJ MAGYARORSZAG in Hungarian
1 Mar 93 p 7

[Unattributed report: "No Further Decrease...; Favorable Signs in Construction Sector"]

[Text] According to the latest data of the Ministry of Industry and Trade, the decline of the construction industry stopped last year, and the output of the sector was more favorable than expected. In 1992, 163 billion forints' worth of construction was carried out, which, calculated at comparative prices, corresponds to last year's level. (Calculated at current prices, the output of contractors shows a 27-percent increase.)

It is not less important that in the last year the number of organizations with the status of a corporate body grew dynamically: The construction industry achieved its last year's output with 38 percent more firms than in the previous year. The output of firms with less than 50 employees was over 40 percent, while the output of those employing more than 300 persons decreased to a level around 30 percent. This corresponds approximately to the structure of the construction industry in Austria or Finland. If you will, Hungarian construction industry now has a European structure with which to tackle the tasks of the near future.

From the point of view of the national economy, last year's results are also noteworthy because the situation of this sector is an indicator. Namely, construction is always the first to move as soon as the entire economy shows the slightest signs of animation. And the fact that the output of the construction sector not only did not decrease, but rather stabilized, allows one to draw the conclusion that a shift is to be expected in the entire economy.

"What is behind the stabilization?" we asked Gyorgy Karikas, who left his position as assistant under secretary in the ministry just a week ago, and until very recently was the master of the construction sector. According to him, the fact that the state initiated considerable infrastructural projects greatly contributed to the stabilization. One need not necessarily think only of the expressways built in franchise, because various other infrastructural projects started recently were financed directly from state resources and credits. Among the reasons one must also point out that after the insecurity of the previous one or two years, last year the self-governments also devoted more of their resources to development. Namely, earlier they rather kept their money in the bank, concentrated on the operation, and were wary of development. As the third source of stabilization one must consider investments by new owners: A great number of private hotels and shops are being built, as well as department stores and shopping centers as joint ventures, and reconstructions are high on the agenda. Foreign capital also undoubtedly had an accelerating effect on construction. Joint ventures were created in the construction sector—Strabag Hungaria, Bauholding, Universale Bau, Buig, Colas, and so forth—which are capable of initiating developments and creating demand on their own.

After the creation of the supply side, the question is only whether there will be continued demand, and how the Hungarian construction sector can participate in its

satisfaction. According to Gyorgy Karikas, Hungarian contractors will have opportunities to the degree to which they can stand competition. Because of its greater adaptability due to the structural change, Hungarian construction industry can participate to 40-50 percent in foreign projects without injuring profit interests. It is competitive both in quality and quantity. Because the export and import of construction has not yet become liberalized, in the licensing procedure one could stipulate up to a reasonable level that in Hungarian projects, foreigners should not bring their earlier partners, but let the Hungarian companies submit bids. A 40-percent Hungarian share of the work in such cases seems to be realistic in any case.

The recently completed industrial policy expects the construction industry to be the success sector of Hungarian economy by 1995. In view of last year's output, there is a good chance to achieve this. One of the criteria for success is the structure of a European style that adapts itself to demand; as a result of the spread of small organizations with few employees, this is no longer a problem. This in itself is capable of stimulating demand, but it also depends on the dynamics of the increase in the GDP. All in all, a 3- to 4-percent yearly increase can be maintained.

Gyorgy Karikas emphasized that in evaluating last year's construction output, it would be a mistake to forget about the expectations connected with Expo '96, which also have a stimulating effect on demand. Several projects were started already which are, in some form, connected with the world exhibition. At any rate, this seems to support the forecasts according to which the important thing is not so much the 36-hectare exhibition area, but rather the countrywide enlivening in connection with the Expo.

* Private Construction Dominates Housing Field

93CH0469C Budapest NEPSZABADSAG in Hungarian
4 Mar 93 p 5

[MTI report: "Fewer Apartments, More Holiday Homes"]

[Text] According to estimates by the Central Statistical Office, last year approximately 26,000 apartments were built in Hungary, 22 percent fewer than in the previous year. Almost 80 percent of the homes were built by the population. In 1992, businesses built 41 percent fewer apartments than a year earlier. The self-governments completed hardly more than 800 homes, and the majority of them meant the completion of projects started at the end of the 1980's.

Concerning the territorial distribution, the building of apartments decreased fastest—by 42 percent—in Jasz-Nagykun-Szolnok County. Only in Csongrad County were more apartments built in 1992 than a year earlier. Here, the increase was 20 percent. Eighteen percent of newly built apartments were replacements, because the self-governments liquidated 4,500 apartments in the

past year. The most apartments were liquidated in Budapest and in Szabolcs-Szatmar-Bereg County.

Unlike apartments, the number of holiday home constructions increased by 19 percent last year. A good one-third of the 2,100 summer homes were constructed in Pest County. Beyond that, the number of new construction at the southern shore of lake Balaton increased by 44 percent, and in the vacation area of lake Velence, by 57 percent.

* GE-Tungsram Dispute on Increasing Capital

93CH0474A Budapest FIGYELO in Hungarian 4 Mar 93 p 6

[Unattributed article: "Owners in Dispute"]

[Text] General Electric (GE) is convinced that from the standpoint of Tungsram's long-term development it would be far more advantageous to inject capital into that firm, rather than taking out new bank loans to finance the losses. Therefore, at Tungsram's annual meeting on 16 March, GE, with a 75-percent controlling interest, is going to propose an increase in capital to the Hungarian Credit Bank [MHB], the other owner, with 25 percent of the stock.

GE attributes strategic significance to Tungsram, its factory in Hungary, we learned from GE Lighting Europe spokeswoman Johnna Friddell. She supported her statement by saying that GE has already invested \$350 million in Tungsram, \$90 million of which paid for direct development. Despite all this, however, Tungsram losses amounted to about 1 billion forints as of last summer.

Based on GE's proposal, both stockholders would contribute incremental capital in proportionately equal amounts. This, however, would be preceded by a reevaluation of the stock, Friddell said in reference to the Tungsram board of directors' proposal to be advanced at the 16 March meeting. At the same time, the MHB has no intention of raising capital to the extent envisioned by GE. Responding to our inquiry, Laszlo Mohr, the bank's division director responsible for the Tungsram stock, said that while the amount to be invested leaked by GE indeed exceeded MHB's financial resources earmarked for investment, MHB's main problem was that the majority owner wanted to devalue the stock first, then link the revaluation maneuver to settling losses incurred by Tungsram. In the MHB's view the losses were incurred as a result of the majority owner's decisions. The Hungarian owner is determined to vote against every proposal calling for a devaluation of the basic capital first, then for an increase of the same. At the same time the MHB is aware that by virtue of its share in Tungsram, GE is in a controlling position.

GE's London-based spokeswoman firmly stated that as a result of the recapitalizing process, the increased volume of investment, and the reduced volume of indebtedness,

Tungsram could rank among the top lighting-source manufacturers in the world.

* Opposition: New Statistics Law Unconstitutional

93CH0474B Budapest FIGYELO in Hungarian 4 Mar 93 p 12

[Article by Karoly Lotz, Alliance of Free Democrats National Assembly representative: "New Statistics Law; The Government Should Withdraw It"]

[Text] The National Assembly is expected to consider the proposed new statistics law this week. The proposal reflects uncertainty in a number of respects, has a number of voids, and contains many gravely flawed elements that are unacceptable from the standpoint of constitutionality. It is not streamlined at all with the data protection law.

For example, Paragraph 13 of the proposal conflicts with Paragraph 3 Section (3) of the data protection law, when it enables the government to supplement its nationwide data collection program under its own authority in the course of any given year, if necessary. In other words, the government could decree a mandatory requirement to collect, and provide any kind of data. In contrast, Paragraph 8 Section (5) of the proposal states that the government is permitted to require by decree only economic statistical data collection. Paragraph 3 Section (3) of the data protection law permits the government to order the collection of data only after the approval of the nationwide statistical data collection program, i.e., it does not permit the government to require supplemental data collection efforts.

No less untenable is the provision of Paragraph 22 Section (6), which permits organs that are part of the official statistical service to interconnect their statistical data bases. Doing so is in part prohibited, in part conditioned by Paragraph 7 Sections (1) and (2) of the data protection law. The proposal defines the official statistical service (Paragraph 3 Section (2)) so that it includes in essence the entire state organizational system. The cited provisions extend the authority to all "other" records (Paragraph 22 Section (4)). Based on authorization contained in Paragraph 22 Section (5), the KSH [Central Statistics Office] would have access to any and all existing information enabling it to identify each individual to whom the data pertain. Based on the personal identification number—a system that continues to be in force—the KSH could, from a technical standpoint, easily link such data, i.e., potentially, it could fully negate the autonomous right of persons to dispose over their personal data.

Due to these and other problems it would be appropriate for the government to withdraw the legislative proposal, compare the proposal with the data protection law, then correct and supplement it, and, finally, resubmit the proposal to the National Assembly.

*** Budapest Bank's Mixed Economic Prognosis**

93CH0431B Budapest UJ MAGYARORSZAG in
Hungarian 25 Feb 93 p 7

[Article by 'Doczy': "Bank Prognosis '93; More Optimistic Pessimists"]

[Text] Budapest Bank has completed its latest economic prognosis which in contrast with the government's forecast does not hold out any promise for an economic recovery this year. Last year, Budapest Bank had offered the most pessimistic forecast, and this could be said about its September prognosis for 1993.

Although the report presented to members of the press yesterday paints a significantly more favorable picture about the year ahead of us than before, it still projects a 1- to 3-percent decline in GDP. At the same time, according to the study, consumer prices will increase by 22-24 percent, popular income by 15-20 percent, and in contrast with the 185-billion-forint ceiling approved by parliament, the budget deficit will hit 250-300 billion forints. Even the bank, however, expects industrial production to rise by a moderate 0 to 2 percent, fuelled also by an additional 2- to 4-percent increase in exports, as a result of which unemployment will stabilize at 800,000 by the end of the year. Discussing some of the processes behind the numbers with UJ MAGYARORSZAG was Peter Bihari, head of main department for economic analysis.

According to the bank's assessment of the situation, in 1993 the condition of the economy and its self-governing processes will lead to continued significant declines in output, hence the government is expected to attempt to halt this unfavorable process, asserted the main department head. As a part of that process we may see an expansion of government-subsidized large enterprises, the credit and interest burdens of which will be partially or fully assumed by the state. Central infrastructure-related investments will also lead to an expansion of production and the creation of new jobs. All of this will stimulate domestic demand, but it will still have to be financed by the budget. This is why the prognosis is forecasting further increases in the budget deficit.

Some degree of state "intervention" had already been expected at the time of the September prognosis, but according to the new study the state will now be forced to take a more active part in economic organization. This explains why this latest forecast contains a positive industrial production index, and why instead of the previously anticipated 1 to 1.2 million unemployed it now projects that—owing to the assistance to be provided to state enterprises—the number of people out of work will level off at 800,000; this is also in line with the government's projections.

Also to be included in the overall economic policy strategy is a mild investment stimulus program, which is expected to entail a 4- to 7-percent increase in imports. Hence the bank is predicting a potential trade balance

deficit of 400-600 billion forints, which is also the main reason why it is forecasting a shortfall in the current balance of payments. The foreign machinery and equipment thus obtained, however, will lay the foundation of potential economic growth in the future.

Structural problems plaguing the Hungarian economy, such as the economic uncertainties resulting from the change of ownership, our foreign debt, and the financial crisis facing the enterprise sector, according to the head of the main department, will continue for the next few years to prevent a large-scale and uninterrupted economic recovery from taking form. He feels, however, that compared with the 11-percent and 5-percent drop registered in the GDP in the last couple of years, respectively, the 2- to 3-percent decline in the GDP predicted for this year can actually be considered an improvement. A small rise in those numbers is not inconceivable for next year, although in subsequent years the GDP is expected to stabilize around the 0-percent level. The analysts of Budapest Bank know of no formula that will quickly cure the ailments of the Hungarian economy, said Peter Bihari, so I would like to call the government's attention to the dangers involved in increasing state intervention. For assistance provided to certain enterprises will deprive other areas of the economy of needed funds, which means that it will be beneficial only if afforded to truly viable firms.

*** Economic Chamber Critique of Industrial Policy**

93CH0476A Budapest FIGYELO in Hungarian 4 Mar
93 p 22

[Article by "Eller": "Industrial Policy: A Sad Chronicle?"]

[Text] "In some respects the recently adopted industrial policy concept gives the impression as if it were not the strategy of the government, and in particular of the ministry which is not perceived to be in charge of its branch to begin with, but rather a sad chronicle of the scaling back of Hungarian industry. It accepts without comment and without drawing any conclusions from the 30-40 percent decline in industrial production so far....," asserts the Hungarian Economic Chamber's analysis.

Last week, the chamber's Alliance Council met at its headquarters on Kossuth Square to discuss the government's medium-term industrial plan. Still only as a nominee to the post of minister of industry and trade the forum's guest speaker, Janos Miklos Latorcai, gave a nearly 60-minute overview of the industrial policy (which had been discussed in issues No. 49/1992 and 2 and 6/1993 of FIGYELO) and called attention to the already published four volumes. The first volume contains the industrial policy concept itself; the second one is its specialized branch supplement; the third one is the so-called technology policy, which is followed by an international and domestic prognosis. The minister-designee's report was not followed by an in-depth

debate. The representatives of branch proponent organizations, when called on to comment, had essentially positive things to say about the concept. Speaking on behalf of the chemical industry, Erzsebet Feher stressed the need to expand the available means of market protection. The president of the Light Industry Alliance, Laszlo Honti, called for an overhaul of the government's tight fiscal policy. While speaking for the machine manufacturers, Laszlo Sandorfi declared: "This is a concept that appears to have been designed not by the government, but by a proponent organization. It does not provide information about the government's expected decisions; rather, it appears to be giving advice to itself."

One could question various aspects of the industrial policy, but the most noteworthy criticism leveled at it was contained in an analysis prepared by the Main Department for Economics of the Hungarian Economic Chamber. According to that study, the chamber had expected the new industrial policy to overturn the government's industrial development plans and goals, and identify the means and specify the tasks needed to attain those goals. The concept, however, has only partially lived up to those expectations.

"Our experiences of the past have convincingly proven that the arsenal of economic policy measures that has given equal weight to improving the foreign trade balance and easing inflation is not suited to promote the restructuring of industrial production, market change, and improved competitiveness; in fact, it actually hinders the attainment of those goals. The concept does not even raise the need to distinguish between these economic goals in terms of priority," the chamber's assessment observes. It then goes on to point out: "We agree with the concept's premise that privatization will have a profound impact on the future direction of industrial development. However, we do not agree that within the system of objectives pertaining to privatization the emphasis should be on acceleration." The chamber has stressed that privatization was merely a means and definitely not the goal, which the drafters of the concept also agree with as evidenced by the fact that Janos Latorcai had made this very point in his introduction; unfortunately, however, this is not evident from the program itself.

"We are somewhat disturbed by the fact that the drafters of the concept consider market protection to be a temporary, in other words nonmarket conforming, strategy. This summary assessment makes it definitely more difficult for people to accept the use of various market protection mechanisms," the chamber insisted. The new minister of industry has identified the tightening of customs procedures, stricter proof of origin requirements, product responsibility assurances, and the strengthening of quality and consumer protection as the government's most important means of market protection.

"We support those elements of the concept that stress the necessity of stepping up the development of the infrastructure. We also believe, however, that this need should have been supported by more specific arguments, highlighting its potentially positive effects on industrial production, employment, and its rippling and cumulative impact on the growth of the economy as a whole. Also lacking is some needed criticism of the current budget policy, which calls for stepped up development every year but does nothing between declarations to follow through," we read further on in the study. The paper then goes on to point out that the industrial policy deals only in general terms with the uncertainties stemming from a lack of necessary laws. It makes it clear, furthermore, that because time is not only money but a matter of life or death, the industrial policy concept also lacks appropriate emphasis on the time factor.

Many have criticized the concept for not providing a detailed assessment of the recent past, and for failing to prescribe a step-by-step therapy, said Janos Latorcai responding to the criticism. It should be pointed out that this concept was never intended to be a work plan or even an action program; it was proposed as a strategy, he argued. A strategy that will be supplemented, among other things, by regional crisis management programs currently under development, including those in Borsod, Heves, and Nograd—which are near completion already—and one that is currently being drafted in Bekes County. According to the chamber, however, it is essential "that the underlying causes be expanded and considered openly, without any embellishment... The lack of thorough and realistic diagnoses may precipitate skepticism even toward the recommended therapy."

The main focus of the concept is structural change. And the reason for this, according to the new minister of industry, is that the most acute crisis facing Hungary today is a structural one. At the branch level, however, he conceded, there is also an undeniable market policy crisis. According to the chamber's criticism, "the concept places a one-sided emphasis on promoting structural change, while neglecting even to mention that in order to improve the position of industry, we also need to address the market-related causes of the crisis."

The chamber is of the opinion that the goals outlined in the industrial policy concept are too general in scope. And even though the enterprises agree that the implementation of the stated industrial policy goals will require fundamentally market-oriented methods, they also feel that in certain situations even direct state intervention may very well be required. For "identifying possible perimeters," as the concept puts it, does not amount to an industrial policy. A viable industrial plan must recognize that the key issue to determine the future of Hungarian industry will be whether or not we will be allowed to join the European Community. The concept, however, does not even attempt to outline the industrial

strategy of integration, the chamber's criticism continues. Moreover, the concept "pays inexplicably marginal attention to the problems of industrial employment."

"The best way to judge a concept is on the merits of its feasibility," the chamber's study asserts, and we could not agree more. Just as we could not sympathize more with their concerns in light of the fact that the present division of rights, jurisdictions, responsibilities, and concomitant interests are chaotic and practically impossible to sort out. The government concept itself makes it clear that the Ministry of Industry and Trade presently does not possess a consistent system of means that would tally with the tasks to be undertaken.

* Status of Budapest Hotel Privatization

93CH0476B Budapest FIGYELO in Hungarian 4 Mar 93 p 23

[Article by Emilia Sebok: "Hotel Industrial Privatization Chain, Chain... Hotel Chain?"]

[Text] It has been two and a half years since the property agency first undertook the privatization of three hotel enterprises. As far as the Danubius chain is concerned that effort is nearing completion; however, in the case of HungarHotels many issues remain unresolved.

A whole line of administrators has come and gone, to the point where it has become nearly impossible to keep tally of the number of people involved at the AVU [State Property Agency] in the privatization of hotel enterprises since the declaration of the First Privatization Program. Undoubtedly this has also contributed to the continued delays, but counselor Robert Hejja—who currently shares the responsibility of overseeing this matter—prefers to attribute the problems to changing economic circumstances.

The AVU has not given up on its plan to privatize the Pannonia and HungarHotels chains upon separating from them buildings that do not suit their profile. (In the case of the Danubius this kind of house cleaning was not deemed to be necessary; only the Hotel Gellert was removed from them, and even that was for different reasons.)

In a worldwide recession that has also paralyzed the real estate market investors are not exactly lining up to acquire such expensive building complexes. (FIGYELO, No. 46, 47, and 49, 1992) Moreover, we do not foresee rapid improvements in the marketplace any time soon. Add to this our domestic economic problems which undoubtedly have also kept some potential buyers away. But even our negotiations with the occasional serious prospects have run into difficulties, we have been told by AVU, because the buildings owned by the Hungarian hotel enterprises are of extremely diverse quality (in the case of the Pannonia, for example, they range from two-star to five-star) thus they do not appear to constitute a real chain. According to hotel enterprise experts,

however, this cannot be the real cause of the problem, as in the entire world there are only a handful of truly homogeneous hotel chains. Furthermore, under the present circumstance hotel syndicates that offer mixed variety options appear to have a definite edge in the marketplace. So it is useless to cling to the hotel chain fetish. Also proving to be a considerable problem in arriving to agreements is the fact that several houses are currently bound to various international hotel chains by franchise agreements which under the given circumstances would be very expensive to terminate. Just recently another problem arose having to do with changes in the turnover tax rates for hotel services.

Despite these difficulties it appears that in the case of Pannonia an agreement may soon be worked out, as several offers have been received in response to the invitation of private purchase bids. The number of applicants has been narrowed down to two investors (with financial backing), and negotiations are already under way with them regarding the details of a possible deal. In terms of assessing the attractiveness of the offers pertaining to majority ownership, the most important factor is naturally the purchase price; however, factors such as the bidder's concept for future development, his business plans for operating the chain, and so forth, may also affect the outcome. Even after the signing of the agreement, AVU will retain a nearly 30-percent share of ownership, which the consulting firm J.P. Morgan recommends should be sold to private investors in the form of public stocks.

In the case of HungarHotels a solution they are still looking for solutions. This despite the fact that they too have been divested of several hotel and hospitality industry operations that have earned AVU nearly 1.5 billion forints in actual revenues, which—we have been told by the enterprise—may be just as great a feat as the sale of Danubius' public stocks. And if the Marriott group finally comes up with the money for the Intercontinental, then that firm can be freed of the burden of Austrian credits. But the drafting of the strategy for privatizing the remaining group of 20 hotels (including some highly reputable places) is just now getting under way. For a different strategy is needed in the case of a company that has become debt-free, than if Marriott had withdrawn its offer. There is even disagreement between hotel and privatization experts whether 20 hotels are appropriate to sell as one package, or the HungarHotels offer should be scaled back even further.

The present consulting firm, Swiss Bank Corp. has recommended a delay of public stock sales and privatization, but has been unable to fully convince the Property Agency of the correctness of its recommendation perhaps also because it itself has not taken an active enough role in this matter. So now it is conceivable that the AVU will invite new consultant bids, or if not it will

at least have to find a domestic brokerage firm which working with the foreign associate will organize the introduction of its offering on the stock market.

This notwithstanding, there have already been several inquiries, but as long as we do not have a new privatization concept in place, AVU has been unable to get into the details of assessing how financially sound the foundation of these inquiries was. But in light of the level of interest it appears feasible to come up with a privatization strategy under which 20-30 percent of the firm's shares could be sold to foreign investors to start out, and the remaining shares would be sold gradually as public stocks in the marketplace to private investors. The bottom line is that it has taken two and a half years for HungarHotels to be finally in a position where the actual process of privatization can begin.

* Budapest's 'Tragic' Environmental Situation

93CH0467F Budapest UJ MAGYARORSZAG in Hungarian 9 Mar 93 p 4

[Unattributed article: "300 Kilograms of Air Pollutants per Resident"]

[Text] The press conference that the Budapest Society for the City's Environmental Protection held yesterday was entitled "A Systems Approach to Environmental Protection." Professor Dezso Rado, the society's vice president, called attention to the fact that environmental protection is no longer a fad or movement, but a professional activity that is a necessary concomitant of technical progress. Because of its complexity, that professional activity does not tolerate picking out and focusing on details. Instead, it employs a systems approach in dealing with the phenomena and their interactions.

Professor Rado pointed out that the traditional classification investigates the environment's elements: the air, water, and soil, the flora and fauna, and the settlement's environment. Man and his activity are left out, although in most cases man's activity simultaneously affects the mentioned elements and man himself, in the form of disease and death.

For instance, public opinion barely takes notice of the more than tragic fact that, according to a comparison of mortality statistics, Hungary has the highest death rate in proportion to its population. Per 10 million of their respective populations, 94,000 Italians, 90,000 Frenchmen, 67,000 Japanese, but 141,000 Hungarians

are dying annually. Our loss in comparison with the European average, or even with our own average 30 years ago, is the equivalent of two battles at Mohacs.

It is undeniable that, for instance, the 14-percent increase in smoking, the 57-percent rise in alcohol consumption, and a more sedentary way of life also play a role in this. But in addition to all this, our industrial production trebled (rose by 300 percent) during the past 30 years, and our transportation increased nearly 20-fold (by 1,900 percent). In other words, in our country—where the average of total air pollutants is at least 200 kilograms annually per citizen—it is not enough to investigate pollution in a breakdown by the environment's elements. More attention ought to be devoted to the phenomena, even if we know that the one to die will be our neighbor, Dezso Rado emphasized.

Analyzing "our most suicidal activities," the speaker pointed out, among other things, the responsibility of settlement policy and settlement planning—i.e., the fact that construction projects, which attract transportation, already determine the future state of the environment. The statistics in this area are at least as appalling as the population statistics. Only here the results are not corpses, but "undernourished" villages and "overfed" hydrocephalic cities, both going to ruin. Thirty years ago, barely 40 percent of the country's population lived in cities. Now the proportion of city dwellers is more than 60 percent.

The villages are emptying, while the cities are becoming less and less inhabitable. The sickest city is Budapest, within which the rise in Buda's horrible building density is a "nightmare." The average annual total of air pollutants per resident in the capital is 300 kilograms. Development of the sewer network is lagging dreadfully, public areas are neglected, and the piles of rubble are growing. The streams are becoming sewers. The green belts and forests are becoming the victims of fire sales and real-estate speculators. The capital is sinking into complete municipal-planning, traffic, and environmental anarchy.

It was emphasized at the press conference that this tragic situation cannot be changed overnight. In a sense of responsibility for the city's residents, however, immediate action is necessary to halt the deterioration, through administrative, economic and traffic-planning measures, through strict enforcement of environmental regulations, by banning construction in the green belts, and by starting the rehabilitation of the network of settlements.

*** ZChN Calls For Broad Christian National Coalition**

93EP0197A Warsaw *POLITYKA* in Polish 6 Mar 93 p 16

[Article by Mariusz Janicki: "Secret Congress; ZChN: All Were Disappointed, No One Lost"]

[Text] Many hopes, often self-contradictory, were tied to the Third Congress of the ZChN [Christian-National Union]. The government expected the place of this party in the coalition to be confirmed and its position in the matter of decrees to be ameliorated. ZChN members, fundamentalists, counted on victory for their orthodox option expressed by Jan Lopuszanski. The former and present president of the party, Wieslaw Chrzanowski, counted on a strengthening of his position. All were somewhat disappointed, but no one lost totally.

The congress was preceded by various feigned movements: a fist on the table by the Democratic Union after the ZChN maneuvers in the matter of the Carpathian Euroregion, the not entirely spontaneous rumors of a possibility of expanding the government coalition to include the PSL [Polish Peasant Party] or the RdR [Movement for the Republic] (Pawlak said of course; Olszewski quickly said thank you, although we actually do not know who proposed these positions), various remarks after the visit of H. Goryszewski to the Vatican diplomatically not denied.

Deliberations of the "working" congress were kept secret, in any event (for the first time since the congress of the "X" party), which suited the "procoalition" option of the ZChN because radical opinions politically against Chrzanowski, which might have evoked a response of the coalitionists, remained within the four walls of the NOT [Chief Technical Organization] hall. At this point, everything became more secret, which did not hurt any of the politicians: Jan Lopuszanski, it appears, gave a sharp speech, saying what he thinks about the present government coalition and specifically about the Democratic Union, but, because the deliberations were "closed," the coalitionists can pretend not to know what he said. These are the principles according to which this strange system with a headquarters in the URM [Office of the Council of Ministers] has long been operating.

The congress opened with a prayer, and, during the deliberations, priests, lost in thought, wandered in the lobbies. They were frequently seen in conversation with Jan Lopuszanski. It quickly developed that the Lopuszanski fraction was less than half but more than a third of the 200 delegates. Chrzanowski's new candidacy for ZChN president was supported by 122 persons; it is assumed that most of the other delegates supported Lopuszanski—that is, were opposed to a coalition with the Democratic Union. Another example of division: Of the 10 members of the board proposed by the president, three did not survive the first round. However, Chrzanowski did not have the two-thirds votes at the congress required to dissolve the Chief Council of the party, led

actually by Lopuszanski. Here, especially, a "region" arose—mainly Poznan, Lodz, and Gdansk—which proposed outright expanding the competency of this body. Other points of the rules were not changed so as to strengthen the authority of the Main Administration or Chrzanowski's organ. Lopuszanski therefore lost but not finally. Although he himself was not a candidate for any positions, the administration included a recognized opponent of Chrzanowski—Halina Nowina-Konopczyna—as well as Henryk Klata. Marek Jurek and the would-be minister of culture, Zbigniew Klajnert, joined the administration. And Jerzy Kropiwnicki lost.

Comments were heard that all of this pushing and shoving was a kind of little theater for the rest of the coalition making up the government of H. Suchocka, demonstrating that the Chrzanowski and Niesiolowski option is as liberal as the ZChN can be and that all corrections can go forward only in the Christian-National direction. This memento is something to think about.

This was well demonstrated by the course of discussion and resolutions of the congress. The Council for Television should really guard Christian values; R. Czarnecki's idea to create an advocate for citizens badgered by the media was not the only sortie of the ZChN spokesperson: During the congress, he returned with a demand for the creation of suitable legal regulations. Government decrees should gain acceptance in the coalition not through a majority but should be adopted unanimously, which, by definition, is impossible without the seal of the ZChN. Activists from the "region" do not themselves wish that the decrees should pertain in any way to local administration; only the Sejm should decide about that. Actually, that demand is not surprising: ZChN members penetrate very effectively almost all levels of local administration, and any ideas—for example, those of the Union, adopted in the form of decrees—could only hurt them here. At this time, the concepts of police provocation and the institution of crown witness were also supported. The president was also supported, with the intention that it was the institution and not the person that was being supported. We must add that the ZChN does not want any elections this year.

Concerning the concepts of expanding the coalition, the elected president, Marshal Chrzanowski, was gracious enough to speak anew. He recognized the idea of discussions with the SLD [Democratic Left Alliance], presented by W. Frasyniuk in a preceding issue of *POLITYKA*, as not wholly serious, although he did not forbid "some members of the SLD to vote for it." Then, in special, Aesopic language, he mentioned Boy and what the "source of embarrassment" was. He spoke several times of the impediments that the "declarations and assertions," not described more specifically, are, which can be interpreted as admitting the possibility of negotiations with the parties of J. Kaczynski, J. Parys, and J. Olszewski. The marshal admitted the "coalition of Christian, National and Peasant forces" to be desirable, and here he emphasized the village parties. Therefore,

discussions with the PSL [Polish Peasant Party] cannot be excluded because other peasant parties are already in the Suchocka coalition at least in declaration. Chrzanowski admits other parties as satellite groups with the sound "core" mentioned above.

The principal stipulation of the delegates was that "the ZChN should achieve more in the government coalition." If to this we add the fact that more and more frequently the activists of the Democratic Union say that the price paid for Suchocka's Cabinet is decidedly too

high for their party and that they can yield no more, the coming weeks promise to be interesting.

At the third ZChN congress, much was to have happened. Meanwhile, the same tea was always stirred, which, after clarification, is once again ready to drink. Minister Dyka returns (for one day, then a holiday again), decrees and Euroregions follow, and somehow it spins on. We should have believed those ZChN activists who thought that the congress would actually be quiet and peaceful and that the results of voting were a foregone conclusion. As it was said, so it was done. Once again the ZChN showed itself to be effective.

Serbian Politician on Islamic Fundamentalism

93P20112A Bucharest ROMANIA LIBERA in
Romanian 18 Mar 93 p 3

[Interview with Rostislav Stojanovic, deputy chairman of the Democratic party of Serbia, outstanding figure in DEPOS, Democratic Movement of Serbia, opposition group, by Mircea Vaida-Voevod; place and date not given: "The Error of the Serbian Government Was To Give Weapons to the People"]

[Text] [Vaida-Voevod] Mr. Stojanovic, as a politician and a professor of international law, how do you characterize the dramatic situation of the dismemberment of Yugoslavia?

[Stojanovic] Yugoslavia is the typical example of the dismemberment of a state. Unfortunately, after World War II, Communism nurtured nationalism in a more accentuated way than previous systems had done. This is the situation throughout Eastern Europe where nationalism is raging. This is what happened in Serbia when a nationalist government came into power, and also in Croatia, just as in Slovenia and in Macedonia. Tudjman, the president of Croatia, spoke in his first election campaign about the borders of Croatia extending to the Drina and the Zemun, alongside Belgrade. At the same time, he presented a constitution which does not take the Serbian people into consideration. Unfortunately, when the first conflicts occurred between the Serbs in Croatia and the Tudjman government, Serbia helped the Serbs in Croatia only by providing weapons and not by giving them an opportunity to appeal to international organizations to prevent the conflict. I was in Serbian Krajina in Croatia after the first incidents, in March 1991, at Glidnica. I saw Serbian and Croatian villages which were decimated. The Serbian government's mistake was to give weapons to the people. We think that the Serbian government made a mistake in November 1990 when it discovered that weapons were being smuggled to Croatia. At that time, the Serbian government should have gone to the Security Council in the normal way and this would have shown that Serbia was in favor of the peaceful solution of differences, not an armed conflict. Another mistake of the Serbian government was the fact that it eliminated communist symbols only with great difficulty. This was grist for Croatia's mill, since the world could say that Serbia is a communist country, and Croatia a democratic one. After that, Croatia spent more than \$20 million to finance their "lobbies" abroad.

[Vaida-Voevod] There is talk about disinformation of public opinion. What do you think about this?

[Stojanovic] I believe that there is disinformation. At the same time, I have been able to verify that the governments of the respective countries were actually well-informed. I spoke with the national security assistant of the president of the United States and the director for Eastern Europe in the State Department in 1991 and 1992 and they were aware of the situation of the Tudjman government and what was happening there. It was

different in the case of Germany. There were two currents in the Democratic Christian Union: a pro-European one which supported keeping Yugoslavia intact and the other one, headed by Genscher, which was opposed to this. Austria was the principal inductor of the German policy. Austria took the measures it took for reasons of history and also because a nationalistic and very conservative party is in power in the country. Serbia's mistakes contributed to the present situation. Let me add that Serbia made a catastrophic mistake when it rejected the proposal of president Mitterrand that the issue of the Yugoslav crisis be brought before the Security Council.

[Vaida-Voevod] Professor Stojanovic, you are one of the signers of the appeal, during the time of Tito, urging that Alija Izetbegovic be released from prison. How would you characterize the Bosnian conflict which is adding a new dimension to the Yugoslav crisis—the Islamic dimension?

[Stojanovic] Bosnia has a different category of problems. The Islamic factor is involved in Bosnia. I know Alija Izetbegovic personally. I read his book which was written in prison and published in America. In this book, he presents himself as an Islamic fundamentalist and demonstrates that Islam is the best religion in the world. That is the spirit of the book. Later, as a politician, he is operating differently. I participated in the establishment of the Serbian Democratic Party in Bosnia, in 1990, at which Alija Izetbegovic was present, as a guest. The idea of the creation of an Islamic fundamentalist state in Bosnia lived in his heart. Serbia made a mistake and the Bosnian Serbs made a mistake not to accept an agreement with Izetbegovic since this would have prevented him from putting his ideas into practice. By proceeding in this way, Serbia would have had the key cards, later, to fight against the creation of an Islamic state.

[Vaida-Voevod] Mr. Stojanovic, indeed, the avoidance of this string of mistakes you mention can no longer be considered a theoretical exercise. From your statements, it can be understood that the tragic history of Yugoslavia is a result exclusively of internal elements which would have been able to be or can be controlled within Serbia or Yugoslavia. This rules out a factor which has often been spoken about recently—that of a scenario set in motion by someone for a certain purpose. [Stojanovic] I cannot dispute the fact that different forces have different interests in this region. I must add here the action of the Vatican which, from the very beginning, has been opposed to the creation of Yugoslavia since it considered that the Catholic factor was dominated by the Orthodox factor. It is a matter, of course, of Austria, Germany, and Hungary. Nevertheless, Serbia succeeded in forming Yugoslavia in 1918 but it was not able to maintain it in 1992. I am very sure that there are forces which want to split up Yugoslavia. The issue is: Why did it succeed now?

[Vaida-Voevod] Recently, we have been seeing the re-emergence of revisionism which supports the idea of autonomies. Serbia seems to be the target of revisionist circles.

[Stojanovic] There is the danger of the dismemberment of Serbia and of part of Hungary. We must get out of this war in order to be accepted and supported by the European Community. There are political forces in Hungary which want to annex Transylvania and some regions in northern Serbia. Perhaps, within Hungary, they are strong and receive support from the extremists. But I believe that other forces, the democratic ones, have greater support, from the great powers.

[Vaida-Voevod] Romania must observe the conditions of the embargo imposed on Yugoslavia. Are the Serbs able to understand our situation?

[Stojanovic] Absolutely and completely. Since we believe that, now, Serbia must observe the decisions of the Security Council to obtain its support and to prevent future developments. If Serbia continues its warlike policy, it will also lose Kosovo and Vojvodina. The government of Romania will have to convince the government of Serbia to carry out a policy which will gain the support of the international community. We must return to the international community.

[Vaida-Voevod] Of course you know that Romania is working to achieve solidarity on the part of the countries in the region and for the military disinvolvement of the Balkan states.

[Stojanovic] I was in Bucharest and I talked with the vice-president of the Senate. In my opinion, Serbia, Romania, and Slovakia should conclude an agreement on the protection of national minorities at the highest-level of international standards and show the international community how we respect the rights of these minorities. If the three countries conclude such an agreement then Hungary, by itself, will not be able to do much against it. A regional agreement of this type would have the support of the international community. Right now, I have fears that Bulgarian policy might be unstable in regard to the Islamic factor. I want Bulgaria to be with us because a community of the four countries—Romania, Yugoslavia, Bulgaria, and Greece—would be a community of five seas, with the addition of the Danube!

* 'Cultural Ethnic Cleansing' Charged in Cluj

93BA0724A Bucharest ROMANIAI MAGYAR SZO in Hungarian 26 Feb 93 p 7

[Report by Laszlo Miklos on protest issued by ethnic German and Hungarian intellectuals in Cluj; date not given: "Protest Against Cultural Ethnic Cleansing in Kolozsvár [Cluj]"

[Text] A statement was published by Hungarian and German intellectuals of Kolozsvár, who do not hold any political office, in which they point out that after they

protested on 28 November 1992 against Mayor Gheorghe Funar's plan to make changes on the city's Mathias [Corvinus] statue in an unlawful and unconstitutional manner and with dictatorial force and as another manifestation of provocation against the city's Hungarian citizens, in the wake of their protest—and as a "result" of it—the mayor forcibly carried out his decision and continued to carry out his many anti-Hungarian measures and procedures with similar forced and administrative coercion. It is written in the statement that it became clearly evident during Gheorghe Funar's almost year-long activity as mayor that the mayor of our city serves not the city community but an extreme organization and party, arbitrarily interpreting and exercising his power as mayor and concentrating his activity on carrying out a cultural ethnic cleansing in one of the major cultural centers of Romania and Europe, involving almost all areas of Hungarian intellectual life and Hungarian historical and cultural traditions and continuing to destroy, methodically and one by one as if programmed, institutions and traditions of many decades and centuries, from renaming streets to "rewriting" the inscription on the Mathias statue. This year-long mayoral tyranny is a glaring dark spot in Romanian democracy and, as such, is the biggest "tarnish" in the process of Romania's integration into Europe, which demands and presupposes a democratic legal system. It is emphasized in the statement that all this necessitated that we raise our voices again, strongly protesting against Gheorghe Funar's anti-Hungarian and antidemocratic dictatorship and demanding that the responsible authorities of our country stop the arbitrary mayoral measures, completely redress the violations of rights resulting from these measures, and call to account all persons who abused their power.... We address our protest to all citizens of our city and our entire country who believe in democracy and to all organizations of the legislative and executive branches, emphasizing, in full awareness of our responsibility for our common destiny, that any Funar-type tyranny and extreme intolerance carries great inherent dangers and may cause severe damages to Romania if generally tolerated. This statement, dated 14 February 1993, was signed by 94 persons.

* Reasons Behind Minorities' Emigration Discussed

93BA0724B Bucharest ROMANIAI MAGYAR SZO in Hungarian 6-7 Mar 93 p 1

[Article by Zsuzsa Kiss: "We Cannot Keep Quiet About It; I Am Leaving, I Am Leaving"]

[Text] No matter what (appropriate or inappropriate) expression the honorary chairman of the RMDSZ [Hungarian Democratic Union of Romania] used, he has not only elicited heated emotions but has also put the issue of emigration again in the center of attention. Of course, there is nothing strange or surprising about this here, in the minority circles, for the old song "I Am Leaving, I Am Leaving" is a "favorite" in our communities—and especially in the German communities. Almost the same

number of people decided to emigrate both before and after the revolution and, although it has been determined that leaving is everyone's private business, we are full of sorrow in taking inventory of our ranks that dwindle day by day.

Our leaving—be that official emigration or illegal stay abroad—already began during the “golden age,” primarily decimating our intellectual assets. Intellectuals (physicians, writers, actors, scientists, engineers, teachers), who were constricted not only by everyday limitations but also by an intellectual abyss were leaving by the legions. Most of them were lured away not by adventure and not by the prospect for an easier and more humane life, but by the commanding voice of the profession, of the vocation. And by the merciless and torturing thought that we only have, and can only have, one life. And, because this applies to every person—be he a Noble Prize laureate or physical laborer—this sorry army began moving out of the country. Romanians, Hungarians, Germans... “*si alte nationalitati [and other nationalities]...*” But it was always us, minorities, to be in the first lines. This is how we came to the point where—using a prosaic example—Budapest or Vienna would be more appropriate locations for a 20- or 30-year class reunion of alumni of a Hungarian or German boarding school in Transylvania; indeed, in my case, Stockholm would also be quite appropriate. Whether we like it or not, the main reason for the still-continuing and extensive emigration of Hungarians and Germans is that, as minorities, their existence is being threatened. And this does not mean that they are being wiped out or beaten on the head but rather that, for instance, their career opportunities are minuscule in comparison with the opportunities for the majority. Even though our outstanding people are dreaming not of becoming president or a minister or a justice but merely of having equal opportunities, according to their abilities and expertise, in competing for local or national leadership positions or academic titles—or for a simple job as factory foreman.

In presenting only two simple examples to demonstrate their multiple disadvantages, let us first think about how it is possible that there is not a single Kovacs among the members of the Romanian Academy. The other inequality, which has political connotations, is also strange—not to use the term atrocious. According to the power establishment, in appointing prefects, the nationality of the nominee does not have to be considered. Ergo, it is not mandatory that Kovaszna and Hargita County's prefect be of Hungarian nationality. All right, we would agree with that, but then, why could not an intelligent Hungarian be an appointed prefect in, say, Vilcea or Gorj Counties? Obviously because we Hungarians are too stupid and ignorant to become members of the Academy or to assume any county office!

Instead of further explanations, let us look at some statistical data, at a report by the Interior Ministry that shows that 226,670 Romanian citizens left the country between 1 January 1990 and 31 December 1992: 54.5 percent of all emigrants were Germans, 27.7 percent

were Romanians, and 14.8 percent were Hungarians, i.e., 72.3 percent were national minorities. Well, is any further commentary necessary? We could only add, perhaps, that the official data do not include those many thousands of individuals—mostly Hungarians—who live and work in Hungary, either partly officially or illegally. Aside from the adventurers among them, they have their compelling reasons for struggling far away from their homes and homeland.

Role, Powers of County Prefects Examined

93BA0725B Bucharest ADEVARUL in Romanian 3
Mar 93 p 3

[Interview with Octav Cosmanca, state secretary in the Department of Local Public Administration, by Adriana Vela; place and date not given: “The Prefect Will Become the Local Prime Minister”]

[Text] [Vela] The problem of the existence of a coherent and viable system in local public administration constitutes the first indispensable point in applying any type of government program. How would you evaluate the operation of the current system of public administration?

[Cosmanca] Partially inefficient. Local public administration is designed to implement the provisions of the government program. The application of and respect for the Constitution and the laws of the country are self-assumed obligations of our government. For this to happen, the proper operation of each individual link is indispensable. For that reason, we are pursuing the improvement of the activities of the ministries, as first links in the involvement of certain specialized organizations that will establish clear, operational, and coherent standards. Then, we want to have improvements in the activities of the prefectures, which we consider and desire to be organs of the government at the local level. The prefect of a county must become a local prime minister who will effectively pursue the attainment of the government programs approved by the Parliament. Unfortunately, to date, the prefectures have struggled at the mercy of fate. The services of the decentralized local public administration have been a kind of state within a state, on the basis of a questionable interpretation of Law No. 96 (regarding local public administration). In a practical sense, we want to set up a unified team in which the ministers and the prefects will together carry out the task of governing. The role of the prefects is especially important. They are the representatives of the government throughout the country, and we count upon them to supervise the adherence to the government program. We must clearly know with whom we are working in agriculture, in education, in health, and so forth, right down to the basic unit, the village.

[Vela] In order for this to happen, it is necessary to have not only these structures, but, especially, their proper operation.

[Cosmanca] Creating this organization falls squarely within responsibility of the prefect, who must form a

type of local government. We were accused of politicizing the local administration, naming only FDSN [Democratic National Salvation Front] prefects. And, of the 34 prefects named to date, 10 are independents. It would not, however, been unnatural for us to do so since the formation of the government is normally done to supervise the fulfillment of its own program. The option to select the prefects named to date was taken after a thorough analysis (we were also accused of delays) of the proposals received by the County Councils for the coordination of existing political bodies throughout the country. Furthermore, we selected the very best. People of irreproachable professionalism, with experience in leadership work and who were clearly dedicated to our government program. We did not, however, place conditions on their selection, as had been done by the FSN [National Salvation Front] in the previous government, requiring them to sign an Honorable Resignation, in the event that they "deviated" from the party's political line. I feel that respect for the government program is purely and simply a matter of political decency.

[Vela] This presupposes knowledge of this program and, if necessary, resignation from the position should some incompatibility with this spring up.

[Cosmanca] A member of an administrative political structure who is in disagreement with the political line promoted by the government is morally obligated to resign. And, we have discovered directors of county public services and even inspectors who have no idea about the government program in which they are a link or who are promoting some other program. Such things are not tolerated anywhere in the world.

[Vela] The existence of a statute for public officials is becoming more and more necessary.

[Cosmanca] Absolutely, it must be defined and codified as quickly as possible. The same goes for the law on personnel in the state administration. It is not right, for example, for a professor selected to serve as mayor of a town to lose—as has happened—5,000 to 10,000 lei in salary. Because of this, we have had numerous resignations. A person in front of the public, with numerous obligations and responsibilities, must be supported. His professionalism is the response we are looking for in return. In Timis, for example, Mr. Pastiu, on the third day after being named, convened the entire staff of the agriculture directors in order to analyze the manner of granting property ownership certificates. There were a great number of claims, but up until that time only 200 had been given out of the more than 100,000 planned. Things must be urgently put in order. The same thing has been happening all over the country, and, as a result, I have asked for the acceleration of the process of granting land to the peasantry.

[Vela] Were measures taken in order to avoid certain similar situations?

[Cosmanca] It was decided to set aside a certain amount of time during each weekly meeting of the government to

discuss the problems out in the countryside. Through this, we wanted the government to be rapidly and directly informed concerning the existing problems and, where necessary, to be able to intervene on the spot. Similarly, each month our directorate will have a meeting with the prefects in order to receive a quick and real exchange of information and actions. Actually, we feel that the administrative structures must reestablish their role as guarantors for the proper functioning of social and economic affairs throughout the entire country, while formalism and apathy must be definitively eliminated.

Tanase on National Interests, Coalition Government

93BA0725A Bucharest *TINERETUL LIBER* in Romanian 25 Feb 93 pp 1, 6

[Interview with Stelian Tanase, vice chairman of the Civic Alliance Party, by Aurel Perva; place and date not given: "The National Interests of Romania Are Common Ones, Regardless of the Party to Which You Belong"]

[Text] [Tanase] These types of visits [to Brussels] do not yield immediate results on a practical level. Their purpose is to give certain guarantees and send a more or less powerful signal. Given the level of representation for Romania, the signal is about as strong as it could be that we are open to the West.

Now, the second and third echelons—business people, diplomats, and politicians who are taking into consideration this signal which Romania has sent—have to establish contacts and get results from this opening that we are creating. I would like to say that all political forces in Romania, in the end, have come to the conclusion that the national interests of Romania are common ones regardless of the party to which you belong, and that the integration of the country into international organizations, as well as its active participation in international trade, and so forth, serve only to help and support the country's escape from the poverty and difficult situation it is now in. This makes me happy because I remember that up until a year or a year and a half ago it used to be said that if Romania had a certain amount of success on the diplomatic and political levels, that would reflect directly only upon the government and that the governing party or parliamentary majority gained political capital. I believe this was an incorrect point of view, which did not serve us well and which led to a polarization of Romanian society or was the consequence of the polarization of Romanian society. Today, things are looking better. There are certain national interests that all political forces must defend together, and there are, certainly, different points of view and different interests in Romanian political affairs that must be protected within the framework of the Romanian political system.

I would also like to point out here that, one, two, three years ago, we were impressed by the fact that, for

example, when I went to international organizations for discussions, regardless of the domestic polemics that were taking place in their political affairs, the Hungarians, the Poles and the Czechs were expressing one point of view which reflected their overall national interests and not just the point of view of one party, one person or one group. We were impressed by this. We did not understand it very well and we were surprised by the effectiveness of this type of political lobbying. I think that after three years Romanian affairs have moved within more normal bounds, or let us say closer to normal, and that there is significance in what has happened here in Brussels—where a Romanian parliamentary delegation was represented by a number of parties, from both the opposition and the government majority. We made a good impression in the fact that when we spoke of Romania's interests in being integrated into international organizations both the majority party and opposition parties presented the same point of view, which made a good impression.

[Perva] There is increasingly insistent talk of a coalition government. What is your personal position?

[Tanase] Because I have been traveling and have been away for a few days, I can only give you a few personal thoughts. I am for a coalition government, for an opening up of the current government to a variety of options, and for abandoning the polarization which, I now think, is a dangerous trend, something which is taking place in Parliament. I am for a political agreement between the parties in which we would have precisely what we spoke of earlier: national interests and priorities. I would like to state that this would not be the first time. This type of thing happened after the fall of the dictatorship, after the death of the dictator Franco, when political forces reunited and concluded a political agreement by which, first of all, they guaranteed the mutual right to be competitors on the political scene, and they decided the priorities in Spain's serious problems, around which they focused political polemics and their efforts. This is what we must now do.

Romania finds itself in an extremely serious economic situation—to be absolutely clear about it, in an extraordinarily serious situation. The country is near the breaking point, and these problems can be more easily confronted if a political agreement is concluded in which the priorities and general efforts with regards to Romania's situation are the subject of certain negotiations. Then, a coalition government could be put together, a government of national unity, or a government made up of people other than those who are part of it today. Perhaps it would retain some of the current members,

perhaps not, we do not know. This would be a practical issue, but we could confront Romania's problems with more trust and realism.

I think that one of the problems that hinders parties today is their lack of realism and their inability to confront the social, political, economic, strategic, and military realities of the country. This turning away from reality seems to me a serious thing that is encountered to the same degree both within the governing party and the opposition parties and, knowing people in all of the factions, I can state that I have observed this and hold these parties responsible for their inability to deal with the real problems of Romanian society.

[Perva] Within the Civic Alliance Party, is there a certain amount of agreement regard to its eventual participation in a coalition government?

[Tanase] I have not officially addressed this subject because the issue has not come up. But, informal discussions with my political friends show that we are open to configurations other than the one we now have. I do not have in mind a specific blueprint for such a government. In any case, because we need an opening, we must at the very least start with the idea that the current polarization and the current reliance on the Left and on extremist elements of the government is not a good thing, and that this preventing the government from working efficiently.

[Perva] During the period immediately following the elections, the winners even invited the opposition to cooperate.

[Tanase] In the discussions we had then at Cotroceni with President Iliescu, we offered a solution of a political agreement based on the idea of the roundtable approach in Poland, on the basis of the principle of power-sharing. In other words, if the FDSN [Democratic National Salvation Front] actually captured 27 percent of the vote, in practical terms it should occupy 27 percent of the positions in the institutions of government. Unfortunately, these negotiations fell through and I think the main reason was the tensions between the FSN [the National Salvation Front] and the FDSN. I believe that this strong conflict between these two parties having the same point of view caused the negotiations to fall through. But even then there was sufficient willingness, and I think that, now, there is even more than before because there is the realization that things are not moving. The problems are so serious that we must move in a very dynamic manner. Therefore, there is a willingness on the part of the Civic Alliance Party to consider forming another type of government.

*** Future Role of New President Assessed***93CH0425B Bratislava NOVE SLOVO BEZ
RESPEKTU in Slovak 22 Feb 93 p 2*

[Commentary by Marian Lesko: "And So It Is Someone Else"]

[Text] Recently, I received a telephone call from an indignant man, who was worked up about the fact that, before the nominating session of the HZDS [Movement for a Democratic Slovakia] leadership, Michal Kovac stated that he would not leave their ranks because a true president could not have an agenda other than the one the government has. Shortly before the second round, he suddenly changed his mind and all at once promised that he would drop his membership in the movement and would function above any party partisanship. It was a scandal, said the angry man, and people are laughing at it. I do not know about you, but, behind his anger, I felt the disappointment of the HZDS zealot. Because otherwise there was no great reason for such agitation.

The experts say that a politician must know three things in particular: what to say, who to say it to, and when to say it. It turns out that, when a politician has a stronger awareness of when and to whom he is speaking, it substantially affects the content of what he says. Perhaps that is true in this case as well. It certainly would have been nice if the person seeking the presidential nomination had just said to the leadership's face that the minute he is elected he would resign his membership in the HZDS. But this honesty would have risked having his colleagues say, "Why are we nominating when, if he gets the job, he will stop being our man?" It would have been no less nice if he had said to the opposition parties that he cannot drop his political membership just in order to become president. In that case, the opposition deputies probably would have said, "Why support a person for whom his own movement is dearer than the office of president of the Republic?" Michal Kovac's statements substantially reflected the contradictory nature of his position; he had equally to convince "his own people" that he would remain theirs and "the others" that he would be an independent person—an unenviable situation because he could make both sides angry. The results of the election showed that he is no stranger to dancing on thin ice or around the china shop. And that is just the kind of skill each president needs to a supreme level.

For all the moralists who want more than anything else that a politician be the embodiment of "a higher moral principle," it is necessary to say that, with a president, it is just like a partner for life. On the day after the wedding and on the day after the elections, they are someone else. It is not even as important as it was beforehand, but something has happened to them—to find out exactly what will always take waiting a certain amount of time.

The Czech newspapers are spreading the idea that Michal Kovac is not a political figure of the first rank, that he derives it from his chairman. They even go so far as to state that one should look for their agreement and

speculate about calculated plans for the entire course of the Slovak presidential election. I think that line is not in keeping with the facts, even though one cannot exclude the possibility that, after some days or weeks, it will be interpreted that way "from above." The fact that Vladimir Meciar did not participate in the discussions with the opposition parties can indeed mean that he had not agreed to anything with them and that, if the president has promised something, let him deliver it, but, at the same time, it would recognize that Michal Kovac "came by" his Presidency personally. The Slovak head of state could say the same thing the Czech one said after his inauguration: "I thank no one for my election." That would probably change the personal relationship between the president and the prime minister enough. After all, it has changed one way or another because, from the moment he was successfully elected, the prime minister has needed the president more than the president has needed the prime minister.

A new, hitherto unknown piece has appeared on the chessboard of Slovakia. We hope that, with its arrival, the play will improve somewhat because, so far, it has not been all that great.

Deputy on Army's Role, Crime, Police*93CH0425A Bratislava NOVE SLOVO BEZ
RESPEKTU in Slovak 22 Feb 93 pp 12-13*

[Interview with Eduard Barany, a member of the Slovak parliament's Committee for Appeals, Legal Protection, and Security, by Anna Lenicka; place and date not given: "We Are Not Being Threatened by Bombing"]

[Text] [Lenicka] Cats, a weakness of yours, have an extraordinarily developed instinct for sensing danger. That virtuoso of words, Ladislav Ballek, once told me the sad tale of his friend who, on the advice of a veterinarian, had an old cat who was loved by everyone in the family destroyed because of its unusually strange behavior. Unfortunately, it soon came out that the cat was not sick but wanted, by its aggression, to warn the people in the house of danger. If we had such a cat in our society, would we not already have to be afraid?

[Barany] I fear that it would not help us much. A cat gives warning of some kind of danger, but it does not know how to tell us specifically what the danger is. Today an atmosphere of insecurity and apathy has spread throughout our society, which is perhaps the human version of this behavior in cats.

[Lenicka] The Slovak "kitty" has landed smoothly on top of sovereignty for the state. It has become a full-fledged subject of international rights. But is it a thoroughbred? Does it have hope for living through its "seven lives" without its own defense doctrine?

[Barany] I think that, even in the corner of the world where Slovakia is located and from which it cannot leave even if it wanted to, we are luckily not in a situation in which the full-blooded nature of the state is determined

only, or even particularly, by its military potential, even though it is important. The prerequisite for definitely working out a military doctrine is the approval of a foreign policy concept for the state, from which it is then derived to a great extent—obviously, respecting the geopolitical circumstances, one's own wealth and shortcomings of the country, and such. I hope that, in the course of this year, we will work this out.

[Lenicka] So our security is being taken care of? Can we sleep peacefully?

[Barany] We are not being threatened by any bombing.

[Lenicka] I would hope not! But seriously. The orientation of the smaller states in security policies must take into account certain specific matters. Our diplomats until recently were trying to drag us into NATO, which does not want us. Were do we go then in a vulnerable security system, and from where, in your opinion, are we threatened with the greatest risk?

[Barany] Any one-sided orientation is unfortunate for a country in the geopolitical position of Slovakia. The greatest danger that threatens us is from ourselves. From the fact that we are not proving ourselves capable of entering into the normal economic, political, cultural, scientific, and other relationships in this part of the world where we live. It would not be good if the situation before World War II is repeated, where the countries in the area between Germany and Russia each indeed cooperated with the Western powers but were not able to cooperate among themselves. It is vitally important for us that we soon derive from our wise efforts at good relations with Western Europe the same efforts at good relations right in this strip of countries. Despite the still prevalent process of breakup going on, Russia is a world power and Ukraine is at least a European power.

[Lenicka] And what about neutrality? Would that be a way out even if Europe is inclining away from it?

[Barany] Neutrality is not so much a question of our declaring it as it is one of whether the other countries will accept Slovakia as a neutral state. Would our neutrality be blessed in the same way as that of Switzerland, in particular? I fear not and that at least today it belongs rather in the realm of pious wishes. After the breakup of the bipolar world, the world has not become better or safer. It is just this area in which we live that has in itself the potential for enormous instability and that has put NATO off from taking these countries into its defense association.

[Lenicka] "We have not gotten rid of all of the tensions around our borders. This in itself confirms the need to build up a very strong army," stated the Slovak prime minister recently. Does this confirm it?

[Barany] I feel that the Army fortunately is not for now the main means by which we should protect ourselves against tensions in this part of the world. Despite the various views, attitudes, and interests between the states,

at least among our neighbors there definitely is no threat that these opinions could grow into an armed conflict, or even just into the threat of armed forces, in the foreseeable future and with the governments they have at this time.

[Lenicka] The amount of money for the Army from the empty state purse thus apparently only illustrates the trend indicated by the prime minister.

[Barany] The sum of 8.2 billion korunas was allocated in the state budget for the Army. For it to be capable of preserving its functional nature and also for it to be restored to the full extent, 10.5 billion korunas would be needed. A normally functioning Army, without special development, would start at a figure of over 12.5 billion korunas. I have the feeling that, if we approve the 8.2 billion sum, we are actually throwing some 6 to 7 billion of it out the window because the functional nature of the Army will be very limited in one way or another. Obviously, something more than 1 billion would suffice for us to store and guard the military materials. We were not aware of the fact that, with the Army, the same as, for example, with education, the normal functioning of such a large subsystem of the society requires a certain, so to say, critical amount of money, without which the effectiveness of the expended resources becomes, at the least, questionable.

[Lenicka] The Slovak Army is being formed, and the police are not adequate to deal with the growing amount of crime. How do you keep informed of such matters in the parliamentary Committee for Appeals, Legal Protection, and Security?

[Barany] As far as the functional nature of the Slovak Army is concerned, within the very modest possibilities given by the budget and the brief period of time since the separation, we can be satisfied. Our committee is for now only partially informed through the official channels, even though lately the situation has improved. Despite everything, I feel it is just our committee that should more emphatically remind people of the need for parliamentary control over the armed forces.

As far as the police are concerned, at the beginning of last year, there were organizational and personnel changes in that department of the Ministry of the Interior. I am not convinced that they were the happiest choices because, after they had been made, the number of cases solved dropped by 10 percent in comparison with the same months of the previous year. Here it is necessary first of all to make use of the personnel and organizational reserves and to return to the previous status and only then to begin to consider questions such as increasing the police's authority. Also, nothing can replace the proper level of training for the police. In comparison with the other countries of the world, our 11-month basic course for police personnel is relatively long, but it is still not even half the basic course for police personnel to the west of us.

[Lenicka] We have replaced the FBIS [Federal Security and Information Service] with the SR information service. To what degree is this organization optimal for us?

[Barany] The governmental proposal submitted in its original form rather reminded one of the attempt at creating a single service out of several, but the government through its deputies in its movement has put in several changes that probably will lead to the creation of a single and unified intelligence service operating both within and outside the country, which I do not at all consider a good idea. It is very dangerous from the standpoint of the concentration of power. The person who will head it up will not be controllable, despite the efforts of the parliament and the government. He has the opportunity also to shift the administration of the constitutional agencies, depending on whether he considers it advantageous or not. If the foreign intelligence services succeed in penetrating into this single organization—and sooner or later they always succeed—it would easily be possible to disrupt its operations. I think that the more optimum model for Slovakia would be four small organizations, two defense intelligence and two operating outside the country, always a civilian and a military one. The model approved is not the happiest choice of a solution.

[Lenicka] That is bad news. Let us try for some better. Economic crimes are going away here, but the phantom of the mafia is descending on us. What can we do so that we are not defenseless before this threat?

[Barany] We must be aware that organized crime can only be suppressed in a democratic society, never wiped out. It is unfortunate that this is so, but it is obviously the price of something else. No country in the world, at least of the democratic ones, has so far proved able to deal with organized crime. The Italian Mafia was suppressed only during Mussolini's time. I consider it important that we prevent the influence of organized crime in the political structure and in the decisive economic centers. That is perhaps realistic. At the same time, it is necessary to put an end as quickly as possible to the period of openness to intelligence operations and the unprotected nature of Slovakia; no country can allow that without serious consequences. It is thus not possible to avoid a negative influence, but it is questionable whether we can prove ourselves capable of keeping it within the boundaries of some kind or another. If we are able to succeed in preventing the pauperization of large groups of the population and to achieve a level of economic stability and prosperity, with the subsequent transformation of the social situation as well, it would create a less favorable climate for the expansion of organized crime than in a situation of depression, overall apathy, and hopelessness in society.

* Meciar's Moves in Economy Explained

93CH0444A Bratislava SLOBODNY PIATOK in Slovak
26 Feb 93 p 2

[Commentary by Ivo Gryzc: "Antidevaluation"]

[Text] Despite some expectations, the Slovak currency will not be devaluated. Prime Minister Meciar announced this in his regular 10-minute television program immediately after the discussions with the representatives of the International Monetary Fund. Because their expectations were exactly the opposite, they could not come to any agreement or even arrive at a joint communiqué. The Slovak prime minister entered into the battle for the stability of the Slovak koruna with his heavy weapons. How else is it possible to explain his advocacy of a temporary state management setup and a whole range of unpopular restrictive measures? Slowing down the process of trade liberalization through anti-import actions, limiting the drawing on hard currency resources while the tax burden on the private sector remains unchanged, and restrictions in the sphere of the state budget all have their impacts on broad strata of the populace, so they will put the prime minister in the position of shooting the works.

It appears that, in this economic situation, which is extraordinarily difficult for Slovakia, the prime minister made use of his personal authority, which, in contrast to that of some of the ministers in his government, is still unshaken. When the economy is in a crisis, it is usually effective for a person with considerable authority and popularity with the populace to take upon himself the responsibility for the planned unpopular measures. Whether this is a suitable solution is a question for the political scientists. The fact is that Meciar's Cabinet in the past few weeks has come under sharp fire from the parliamentary critics, and some of his ministers have already received warning notices—and not just from the opposition deputies. On the other hand, the opposition's demand for an accounting for the government's actions so far has not found enough support to make the government's life seriously unpleasant or to bind it to any action. The parliament has indeed roused itself from its initial lethargy, but so far it has left the government and the victorious movement a free hand until the March congress of the HZDS [Movement for a Democratic Slovakia]. This has given the Slovak prime minister the essential room for maneuvering for the announced stabilization measures, while it does not appear that he would appropriate for himself the idea of the deputy chairman of the movement, Knazek, on the need for the movement's cooperation with the other parties. At the okres congress of the HZDS in Poprad, he called Knazek's path suicidal. Meciar can thus kill two birds with one stone. The authoritative interventions in the economy will at least moderate the expectations of devaluation and, at the same time, put forward his program for the HZDS and the government for the subsequent period.

Each counteroffensive, however, demands great forces and allies. The prime minister is looking for them more among his own voters (whom he defines as the citizens of Slovakia) and the colossi of heavy industry than among his political partners. His forceful method of politics is able to mobilize forces, but, at the same time, it brings out the centrifugal tendencies in the society and creates artificial enemies. Parliament has not succeeded in concentrating on getting rid of such tendencies because the political parties are regrouped into strange coalition groupings, and it has not been able to coordinate its approach to the government. A good move toward getting out of this situation could come from the integrating influence of the Slovak president, Michal Kovac, who has shown himself capable of getting the votes not only of his own movement, but also of the opposition deputies. Parliament would thus show the way out of the embarrassing relations with the government in the Bratislava Castle.

The development of the economic and political situation in Slovakia thus has only two parallel tracks. The prime minister has firmly taken the responsibility for economic stability into his hands, and a political solution of a possible crisis is fully in the power of the president. He should actively enter into the relationships between the parliament and the government, using the weight of his authority to suppress the centrifugal tendencies in society, and reinforce the cooperation of the parties represented in parliament so that their influence and responsibility vis-a-vis the voters would be proportionately transferred to the government's program as well. One of the Slovak president's first steps should therefore be a consultation with the prime minister and the parliamentary political groups on the planned measures to stabilize the currency and their appropriate modification arising from a consensus broader than that of the government.

* Plans To Cut Novi Sad Hungarian TV Abandoned

93BA0752A Novi Sad MAGYAR SZO in Hungarian 28 Feb 93 p 13

[Statement by the editors of MAGYAR SZO: "A Message From the Editors"]

[Text] Following the announcement by Ujvidek [Novi Sad] TV's director-editor in chief that there would be cuts in the number and length of the programs for ethnic groups, we have received numerous comments, letters, and petitions from our readers during the past few days. Many of our readers have threatened to withhold further payments of license fees for their sets.

In the meantime this problem has been resolved satisfactorily. As also Otto Szakallas, the responsible editor of the Hungarian-language news and political programs, said in a statement published in our paper, the present programming pattern and the length of the broadcasts will be retained, with only slight modifications. Therefore we believe that, fortunately, the mentioned letters and comments have ceased to be timely.

At any rate, we wish to thank our readers who wrote to us, for their efforts to help clarify problems that affect us all.

* DZVM Seeks Control of Ethnic Hungarian Press

93BA0752B Budapest NEPSZABADSAG in Hungarian 24 Feb 93 p 2

[Article by Eva Spitzer: "DZVM Would Be Willing To Take Over Vojvodina's Hungarian Press"]

[Text] In view of the serious financial situation in which the Hungarian-language press finds itself and in accordance with its own concept of autonomy, the Democratic Union of Hungarians in Vojvodina (VMDK [DZVM in Serbian]) would be willing to take over the founder's rights from the Serbian state, if also the editorial offices agree to the transfer.

When asked to comment, VMDK President Andras Agoston told our reporter the following:

"We will prepare as soon as possible an entirely specific proposal on this matter, because we feel that the situation is ripe to establish an information system as one of the main pillars of our autonomy. Bilateral negotiations can take place only thereafter. Naturally, everyone will have to assume historic responsibility for his decision."

In conjunction with the proposed transfer, there have been rumors of talks between the VMDK and the management of MAGYAR SZO about moving the paper from Ujvidek [Novi Sad] to Szabadka [Subotica]. Andras Agoston said that this plan was indeed discussed in the course of unofficial talks.

Without the Hungarian state's effective assistance, the Hungarian-language press in Vajdasag [Vojvodina] would be unable to publish regularly at present. The transfer of the founder's rights, according to Agoston, would provide a basis for the political struggle whose purpose is to ensure that the Hungarian-language media really get the money set aside to provide information for Vajdasag's ethnic Hungarian taxpayers. Under the present circumstances it is not certain that this amount would be sufficient to publish MAGYAR SZO in its former volume, but it is certain that, within the framework of autonomy, this financial basis could be augmented also with foreign and domestic capital, said the VMDK president.

Even though the Serbian regime's measures are an ever greater burden on Vajdasag's ethnic Hungarians, Andras Agoston believes that the regime may nevertheless relinquish its founder's rights, because the experience of the elections has demonstrated the regime's inability to implement its plans regarding the mass media.

* Subotica's Hungarian Mayor Views Political Scene

93BA0752C Budapest NEPSZABADSAG in Hungarian 4 Mar 93 p 7

[Interview with Jozsef Kasza, mayor of Subotica, by Eva Spitzer; place and date not given: "Ethnic Hungarian Municipal Leadership in a Serbian Environment"]

[Text] In Serbia or rump Yugoslavia, nothing has changed for the better since the multiparty elections of 1990. The hopes of those who put their faith in new elections two years later, and in a peaceful change of political systems, have been dashed by the victory of the Socialists and of the extreme-right radicals profiting from Serbian nationalist policy. In the northern, Hungarian-inhabited areas of Vajdasag [Vojvodina], however, candidates of the Democratic Union of Hungarians in Vojvodina [VMDK] won and occupied at least the municipal councils, if not the organs of state power. In Szabadka [Subotica], the city in northern Bacska [Backa] that is the most developed after Uj Videk [Novi Sad], a municipal council with an ethnic Hungarian majority came to power already in 1990. Responding to the questions we put to him in the interview he granted us, Jozsef Kasza (now in his second term as the city's mayor) described the present situation in terms that are not the least bit reassuring.

[Spitzer] Considering the December election results in the municipalities, can it be said that ethnic Hungarians have taken over local government in the municipalities of northern Bacska and northern Banat?

[Kasza] Although the wording is not very apt, it is true nevertheless that the elections in Szabadka, Kanizsa [Kanjiza], Zenta [Senta], Ada, Becse [Becej], Topolya [Topola], Kishegyes [Mali Idos], and Csoka [Coka] ended with a sweeping victory of the ethnic Hungarians, or rather of the VMDK. The future will decide how well we are able to use this power and what we will do with it.

[Spitzer] What is the situation at present?

[Kasza] The newly elected leadership has inherited very many problems and worries. The Socialists destroyed everything they could. They emptied the municipalities' coffers. The situation in Szabadka is more fortunate because I and my team assumed office already in 1989, and therefore the Socialists were unable to carry out such destruction. In our municipality there is still money in the various funds, and the Socialists—as the Communist Party's heirs—were unable to put their hands on that money on the pretext that the municipality's assets were party assets.

[Spitzer] Are you implying that this is what happened in the other municipalities?

[Kasza] During the past 50 years there was a penchant for transferring municipal assets to various enterprises and institutions that were under central control. The reclamation of such assets is now in progress. But there are examples of municipal administrations paying rent to the Socialist Party for the town hall's use. The municipalities have been defrauded of their assets. Those assets must be reclaimed everywhere if the municipalities are to be able to function at all.

[Spitzer] Szabadka is being regarded as an opposition-controlled city since the first multiparty elections. In what way does opposition manifest itself under the present political conditions in Serbia?

[Kasza] We in Szabadka are of a different mind from most Serbian cities or the current Serbian leadership. Under no circumstances would we be able to accept the policy of war. In our opinion, the problems created by the Yugoslav crisis can be solved even without war, through reasoning and negotiations, rather than with stubbornness, the way the politicians are doing.

[Spitzer] The Szabadka municipal administration and the overwhelming majority of the local residents are advocating peace and coexistence. But are they having any impact?

[Kasza] Now it is already possible to advocate peace, but about two years ago that would have been a crime endangering the public—not only in Szabadka, but anywhere in Serbia. Anyone who wanted peace was declared an enemy. Attempts were made to discredit many of our collective actions. But now I feel that our aspirations can be accomplished. Those who are in power are also preaching peace now, but they fail to act accordingly.

Coexistence in Szabadka dates back many centuries. Here the people are culturally intertwined. The common way of life has created a more tolerant atmosphere here. We would like to serve as an example to Serbia that it is possible to live peacefully also in a multiethnic environment.

[Spitzer] In recent years one can often hear about the spreading of the Balkan mentality. How would you

define the gist of that mentality, and is its influence perceptible in Szabadka as well?

[Kasza] First of all the Balkan mentality means exclusiveness and violence, and both are becoming increasingly perceptible in our city as well. Those who do not think in terms of Balkan methods are gradually becoming a minority. No nation can have an exclusive claim to justice, before which everyone must bow his head.

[Spitzer] Immediately after the elections you said that the Socialists have gradually been losing the ground from under their feet since 1989. Isn't that self-deception? After all, the latest election results and the measures introduced after the elections seem to prove the exact opposite.

[Kasza] That is indeed what it looks like in the short term. But I actually had the Szabadka municipality in mind, and the loss of positions here is quite obvious. The Communists were in power in 1989, and then power was usurped by the Socialists, who regarded themselves as the legal heirs of the Communists. But in the 1990 elections the Socialists lost their positions in our city. At that time they still held a third of the seats in the municipal council, but now the number of seats held by the Socialists is practically negligible. They have 10 seats out of a total of 67. I believe that Szabadka is not the only place where this has happened. Unfortunately, the shift in Serbia proper has been toward the extreme radicals who are pursuing an even more dangerous policy than the Socialist Party.

[Spitzer] The result of the Socialists' policy is the embargo, the sanctions with which international public opinion is penalizing rump Yugoslavia. How is this making itself felt in Szabadka?

[Kasza] Under normal conditions the sanctions would have brought about the failure of this policy, or at least would have forced it to retreat. But this has not happened in Serbia's case. First, because the world body and the EC hesitated too long about introducing sanctions, which then could be circumvented in numerous ways. And second, because the sanctions strengthened national homogenization among the Serbs. Defiance led to unity. Every possible method has been tried to prevent the sanctions from making themselves felt. The danger of the sanctions is that they have strengthened Miloshevich's policy.

But it must not be forgotten that a third of Serbia's or rump Yugoslavia's population is not Serbian. It comprises minorities that neither agree with the policy being pursued in their name, nor want to throw in their lot with this political system. But these minorities feel the harsh impact of the sanctions. That is true of Vajdasag's ethnic Hungarians as well. Today the standard of living in Serbia is at the Bangladeshi level. Seventy percent of the 28,000 retirees in Szabadka are trying to keep body and soul together on pensions equal to 10 German marks a month. More than half of the employed are attempting

to live on starvation wages of about 40 marks. Most enterprises are not producing or are operating merely at 15 or 20 percent of capacity. The living standard's decline is unavoidable under such conditions. In Szabadka we have reached the point where neither parents nor society is able to provide lunch for more than a thousand children of school age. Several thousand households are on the verge of the poverty level and need help.

[Spitzer] The Serbian regime and also the federal leadership keep insisting that Yugoslavia is not at war with anyone. Yet the war that is being waged next door is making itself felt. How do you perceive the war's effect from close-by?

[Kasza] It sounds very nice that the Yugoslav Federal Republic is not at war with anyone, but all the causes of the war have originated in Serbia. Under the sponsorship of the Socialist Party, Socialist [enterprise] directors have organized shipments of more than 700 metric tons of food and other aid from Szabadka to the Serbian regions. None of it went even accidentally to Croatian or Muslim territory, although the situation is very serious there as well. It goes without saying that this aid has made also our municipality that much poorer, and now we have to ask for aid from abroad.

[Spitzer] I assume that also the successive mobilizations and call-ups are intensifying the fear and revulsion.

[Kasza] Yes, and we should add to the preceding that Serbia allegedly has not been in "conflict" with any of the Yugoslav republics up to now, yet many of our soldiers bit the dust on "foreign" battlefields: in Baranya [Croatia], Slavonia, and Bosnia. Twenty-one Szabadka residents have lost their lives in this "peace." We were the first to say that we must not participate in this war, that it is a Croatian-Serbian conflict which must not be

settled at the ethnic Hungarians' expense. Yet they have been mobilizing by force, and are continuing to do so to this day. Our young men are being taken away by force, through various tricks, police summonses, and threats. It must be admitted that the ethnic Hungarians are not the only ones being treated in this manner.

Civil disobedience is now spreading not just among ethnic Hungarians, but among the democratic-minded Serbian youths as well. They do not want to join the army. In addition, an awkward situation has developed also in connection with the refugees from Krajina. They did not want to participate in the war either. Now they are being expelled by force, and males between 18 and 50 are being escorted by the police back to Krajina battlefields.

[Spitzer] Analyzing the strategy of the VMDK, its president, Andras Agoston, said recently that in the case of extreme danger—i.e., of atrocities against Vajdasag's ethnic Hungarians—the VMDK would urge them to flee. As Szabadka's mayor, what is your view on this issue?

[Kasza] Regrettably, in the given situation fleeing would probably be the only solution. Vajdasag's ethnic Hungarians do not have arms. Nor do they want to arm themselves. Physical resistance to the power structure is foreign to our mentality. Should the political system or the Serbian nation want to retaliate against the ethnic Hungarians, the retaliation would be a bloody one. In that case there would be no way out other than to flee. I do not expect that to happen. I believe they will accept our presence as original inhabitants in this area, and will grant us the rights we are demanding in our concept of autonomy. After all, we are not separatists. We are merely demanding our fundamental human rights: the right to use our native language, to be taught in that language, to maintain our educational and cultural institutions, to dispose of the goods we produce, and to avoid falling into a situation of exploitation and oppression.

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